

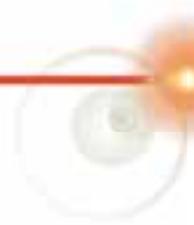
# Documentation for the Annual General Meeting

on Thursday 31 May 2012 at 10:30 a.m.

at Hotel Okura Amsterdam  
Ferdinand Bolstraat 333,  
1072 LH Amsterdam,  
The Netherlands



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# Agenda

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**1 Opening and general introductory statements**

**2 Presentation by the Chairman and the Chief Executive Officer,  
including report by the Board of Directors in respect of the:**

1. Corporate governance statement
2. Policy on dividend
3. Report on the business and financial results of 2011

**3 Discussion of all agenda items**

**4 Vote on the resolutions in respect of the:**

1. Adoption of the audited accounts for the financial year of 2011
2. Approval of the result allocation, distribution and payment date
3. Release from liability of the Members of the Board of Directors
4. Appointment of Mr Arnaud Lagardère as a Member of the Board of Directors
5. Appointment of Mr Thomas Enders as a Member of the Board of Directors
6. Appointment of Mr Dominique D'Hinnin as a Member of the Board of Directors
7. Appointment of Mr Hermann-Josef Lamberti as a Member of the Board of Directors
8. Appointment of Mr Lakshmi N. Mittal as a Member of the Board of Directors
9. Appointment of Sir John Parker as a Member of the Board of Directors
10. Appointment of Mr Michel Pébereau as a Member of the Board of Directors
11. Appointment of Mr Josep Piqué i Camps as a Member of the Board of Directors
12. Appointment of Mr Wilfried Porth as a Member of the Board of Directors
13. Appointment of Mr Jean-Claude Trichet as a Member of the Board of Directors
14. Appointment of Mr Bodo K. Uebber as a Member of the Board of Directors
15. Appointment of Ernst & Young Accountants L.L.P. as co-auditor for the financial year 2012
16. Appointment of KPMG Accountants N.V. as co-auditor for the financial year 2012
17. Removal of Articles 15, 16 and 17 of the Company's Articles of Association
18. Adoption of the compensation and remuneration policy of the Members of the Board of Directors
19. Delegation to the Board of Directors of powers to issue shares and to set aside preferential subscription rights of existing shareholders
20. Cancellation of shares repurchased by the Company
21. Renewal of the authorisation for the Board of Directors to repurchase shares of the Company

**5 Closing of the meeting**

# Text of the resolutions proposed by the Board of Directors

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## FIRST RESOLUTION

### Adoption of the audited accounts for the financial year 2011

**RESOLVED THAT** the audited accounts for the accounting period from 1 January 2011 to 31 December 2011, as submitted to the Annual General Meeting by the Board of Directors, be and hereby are adopted.

## SECOND RESOLUTION

### Approval of the result allocation, distribution and payment date

**RESOLVED THAT** the net profit of € 1,033 million, as shown in the income statement for the financial year 2011, shall be added to retained earnings and that a payment of a gross amount of € 0.45 per share shall be made to the shareholders from distributable reserves on 7 June 2012.

## THIRD RESOLUTION

### Release from liability of the Members of the Board of Directors

**RESOLVED THAT** the Members of the Board of Directors be and hereby are granted a release from liability for the performance of their duties during and with respect to the financial year 2011, to the extent that their activity has been reflected in the audited annual accounts for the financial year 2011 or in the report of the Board of Directors.

## FOURTH RESOLUTION

### Appointment of Mr Arnaud Lagardère as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Arnaud Lagardère be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## FIFTH RESOLUTION

### Appointment of Mr Thomas Enders as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Thomas Enders be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## SIXTH RESOLUTION

### Appointment of Mr Dominique D'Hinnin as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Dominique D'Hinnin be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## SEVENTH RESOLUTION

### Appointment of Mr Hermann-Josef Lamberti as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Hermann-Josef Lamberti be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## EIGHTH RESOLUTION

### Appointment of Mr Lakshmi N. Mittal as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Lakshmi N. Mittal be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## NINTH RESOLUTION

### Appointment of Sir John Parker as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Sir John Parker be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## TENTH RESOLUTION

### Appointment of Mr Michel Pébereau as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Pébereau be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## ELEVENTH RESOLUTION

### Appointment of Mr Josep Piqué i Camps as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Josep Piqué i Camps be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## TWELFTH RESOLUTION

### Appointment of Mr Wilfried Porth as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Wilfried Porth be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## THIRTEENTH RESOLUTION

### Appointment of Mr Jean-Claude Trichet as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Jean-Claude Trichet be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## FOURTEENTH RESOLUTION

### Appointment of Mr Bodo K. Uebber as a Member of the Board of Directors

**RESOLVED THAT** effective at the close of this Annual General Meeting, Mr Bodo K. Uebber be appointed as a Member of the Board of Directors for a term of five years, ending at the close of the Annual General Meeting which shall be held in the year 2017.

## FIFTEENTH RESOLUTION

### Appointment of Ernst & Young Accountants L.L.P. as co-auditor for the financial year 2012

**RESOLVED THAT** the Company's co-auditor for the accounting period being the financial year 2012 shall be Ernst & Young Accountants L.L.P., whose registered office is at Boompjes 258, 3011 XZ Rotterdam, The Netherlands.

## SIXTEENTH RESOLUTION

### Appointment of KPMG Accountants N.V. as co-auditor for the financial year 2012

**RESOLVED THAT** the Company's co-auditor for the accounting period being the financial year 2012 shall be KPMG Accountants N.V., whose registered office is at KPMG Accountants N.V., Rijnzathe 14, 3454 PV De Meern, The Netherlands.

## SEVENTEENTH RESOLUTION

### Removal of Articles 15, 16 and 17 of the Company's Articles of Association

**RESOLVED THAT** Articles 15, 16 and 17 of the Company's Articles of Association are removed and as a consequence the numbering and the cross-referencing (where relevant) in and/or of Articles 10 and Articles 15 up to and including 32 of the Company's Articles of Association will be adjusted accordingly and that both the Board of Directors and the Chief Executive Officer be and hereby are authorised, with powers of substitution, to implement this resolution.

## EIGHTEENTH RESOLUTION

### **Adoption of the compensation and remuneration policy of the Members of the Board of Directors**

**RESOLVED THAT** the proposed compensation and remuneration policy for the Members of the Board of Directors, including the rights to subscribe for shares for the Executive Director, as included in the Report of the Board of Directors, be and hereby is accepted and adopted.

## NINETEENTH RESOLUTION

### **Delegation to the Board of Directors of powers to issue shares and to set aside preferential subscription rights of existing shareholders**

**RESOLVED THAT** in accordance with the Articles of Association, the Board of Directors be and hereby is designated, subject to revocation by the General Meeting, to have powers to issue shares and to grant rights to subscribe for shares which are part of the Company's authorised share capital, provided that such powers shall be limited to 0.15% of the Company's authorised capital from time to time and to limit or exclude preferential subscription rights, in both cases for a period expiring at the Annual General Meeting to be held in 2013.

Such powers include without limitation the approval of share-related long-term incentive plans (such as stock option, performance and restricted share plans) and employee share ownership plans. Such powers may also include the granting of rights to subscribe for shares which can be exercised at such time as may be specified in or pursuant to such plans and the issue of shares to be paid up from freely distributable reserves.

## TWENTIETH RESOLUTION

### **Cancellation of shares repurchased by the Company**

**RESOLVED THAT** the number of shares in the Company held by the Company, up to a maximum of 553,233 shares, be cancelled and both the Board of Directors and the Chief Executive Officer be and hereby are authorised, with powers of substitution, to implement this resolution in accordance with Dutch law.

## TWENTY-FIRST RESOLUTION

### **Renewal of the authorisation for the Board of Directors to repurchase shares of the Company**

**RESOLVED THAT** the Board of Directors be and hereby is authorised, for a new period of 18 months from the date of this Annual General Meeting, to repurchase shares of the Company, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company will not hold more than 10% of the Company's issued share capital and at a price not less than the nominal value and not more than the higher of the price of the last independent trade and the highest current independent bid on the trading venues of the regulated market of the country in which the purchase is carried out. This authorisation supersedes and replaces the authorisation given by the Annual General Meeting of 26 May 2011 in its tenth resolution.

# Presentation of the resolutions proposed by the Board of Directors

## FIRST RESOLUTION

### Adoption of the audited accounts for the financial year 2011

We recommend that this Annual General Meeting (AGM) approve the audited accounts for 2011.

For more information on the audited accounts for 2011, see Sections 5.1 to 5.3 of the Board report.

## SECOND RESOLUTION

### Approval of the result allocation, distribution and payment date

We recommend that this AGM resolve that the net profit of €1,033 million, as shown in the income statement for the financial year 2011, shall be added to retained earnings and that a payment of a gross amount of €0.45 per share shall be made to the shareholders from distributable reserves on 7 June 2012.

As from 4 June 2012, EADS' shares will be traded ex-dividend on the Frankfurt, Paris and Spanish Stock Exchanges. The dividend payment will be made on 7 June 2012 to holders of EADS' shares as of 6 June 2012.

For more information on dividend policy, see Section 3.5 "Dividend Policy" of the Board report.

## THIRD RESOLUTION

### Release from liability of the Members of the Board of Directors

We recommend that this AGM discharge the Members of the Board of Directors from their responsibility for the conduct of the Company's business with respect to the financial year 2011.

## FOURTH TO FOURTEENTH RESOLUTION

### Appointment of Messrs Arnaud Lagardère, Thomas Enders, Dominique D'Hinnin, Hermann-Josef Lamberti, Lakshmi N. Mittal, Sir John Parker, Michel Pébereau, Josep Piqué i Camps, Wilfried Porth, Jean-Claude Trichet and Bodo K. Uebber as Members of the Board of Directors

The mandates of all current Members of the Board of Directors expire at the close of the AGM of 2012. We recommend that this AGM appoint Messrs Arnaud Lagardère, Thomas Enders, Dominique D'Hinnin, Hermann-Josef Lamberti, Lakshmi N. Mittal, Sir John Parker, Michel Pébereau, Josep Piqué i Camps, Wilfried Porth, Jean-Claude Trichet and Bodo K. Uebber as Members of the Board of Directors effective as of the close of this AGM, for a term of five years ending at the close of the AGM which will be held in 2017.

### Mr Arnaud Lagardère



Mr Arnaud Lagardère (50) was appointed Managing Partner of Lagardère SCA in March 2003 and his appointment was renewed by the Supervisory Board on proposal of the General Partners on 11 March 2009, for a period of six years to run until 11 March 2015. In addition, Mr Lagardère is the Chairman of Lagardère SAS and Lagardère

Capital & Management SAS. He and these two companies held 9.62% of Lagardère SCA's share capital on 31 December 2011. Mr Lagardère holds a DEA higher degree in economics from the University of Paris Dauphine. He was appointed Director and Chief Executive Officer of the Company MMB, which became Lagardère SCA, in 1987. He was Chairman of the US Company Grolier Inc. from 1994 to 1998.

**Mr Thomas Enders**

Mr Thomas Enders (53), Chief Executive Officer of Airbus since 2007, studied Economics, Political Science and History at the University of Bonn and at the University of California in Los Angeles. Prior to joining the aerospace industry in 1991 (Messerschmitt-Bölkow-Blohm), he worked, inter alia, as a Member of the Planning Staff of the German Minister of Defence. At MBB and subsequently DASA he held various positions, including Chief of Staff, Director Corporate Development & Technology, and Head of Defence Systems. Following the creation of EADS in 2000, he was appointed CEO of the EADS Defence and Security Systems Division, holding this position until 2005 when he was appointed co-CEO of EADS. Mr Thomas Enders has been President of BDLI (German Aerospace Industry Association) since 2005.

**Mr Dominique D'Hinnin**

Mr Dominique D'Hinnin (52) was appointed Co-Managing Partner of Lagardère SCA in March 2010. He joined Lagardère in 1990 as advisor to the Chairman of the Finance Committee of the Group. After that, he held different positions within the Group, first being appointed as Internal Audit Manager, and then CFO of Hachette Livre in 1993, before being appointed Executive Vice President of Grolier Inc in the United States and Chief Financial Officer of Lagardère SCA in 1998. Mr D'Hinnin is an alumnus of the École normale supérieure and is an Inspecteur des Finances.

**Mr Hermann-Josef Lamberti**

Mr Hermann-Josef Lamberti (56) is a Member of the Management Board of Deutsche Bank AG since 1999 and is the bank's Chief Operating Officer. From 1985, he held various management positions within IBM, working in Europe and the United States, in the fields of controlling, internal application development, sales, personal software, marketing and brand management. In 1997, he was appointed Chairman of the Management of IBM Germany. He started his career in 1982 with Touche Ross in Toronto, before joining the Chemical Bank in Frankfurt. Mr Lamberti studied business administration at the Universities of Cologne and Dublin, and graduated with a Master's degree.

**Mr Lakshmi N. Mittal**

Mr Lakshmi N. Mittal (61) is the Chairman and CEO of Arcelor Mittal. He founded Mittal Steel Company in 1976 and led its 2006 merger with Arcelor to form ArcelorMittal, the world's largest steel maker. He is widely recognised for his leading role in restructuring the global steel industry, and has over 35 years' experience working in steel and related industries. Among his manifold mandates, Mr Mittal is Member of the Board of Directors of Goldman Sachs, of the World Economic Forum's International Business Council, and of the Advisory Board of the Kellogg School of Management. Furthermore, he has been awarded numerous recognitions from international institutions and magazines and is closely associated with a number of non-profit organisations.

**Sir John Parker**

Sir John Parker (69) is Chairman of Anglo American PLC, Deputy Chairman of DP World (Dubai), non-executive Director of Carnival PLC and Carnival Corporation. He stepped down as Chairman of National Grid PLC in December 2011. His career has spanned the engineering, shipbuilding and defence industries, including some 25 years' experience as a Chief Executive Officer with Harland & Wolff and the Babcock International Group. He also chaired at the Court of the Bank of England between 2004 and 2009. Sir John Parker studied Naval Architecture and Mechanical Engineering at the College of Technology, Queens University, Belfast.

**Mr Michel Pébereau**

Mr Michel Pébereau (70) was BNP Paribas' Chairman of the Board between 2003 and December 2011. He presided over the merger that created BNP Paribas in 2000, becoming Chairman and Chief Executive Officer (CEO). In 1993, he was appointed Chairman and CEO of the Banque Nationale de Paris and privatised it. Previously, he was Chairman and CEO of the Crédit Commercial de France. He started his career in 1967 at the Inspection Générale des Finances. In 1970, he joined the French Treasury where he held various high ranking posts. Mr Pébereau is an alumnus of the École nationale d'administration and of the École polytechnique.

**Mr Josep Piqué i Camps**

Mr Josep Piqué i Camps (57) has been the non-executive Chairman of Vueling since 2007. He started his carrier as economist of the studies service "la Caixa" and became Director General of the Catalan Industry in 1986. Two years later, he joined the Company Ercros, where he eventually became CEO and Chairman. After serving several

years within the Circle of Economics of Barcelona, he led it as Chairman (1995-1996). Then, Mr Piqué was successively appointed Minister for Industry and Energy (1996-2000), government Spokesperson (1998-2000), Minister of Foreign Affairs (2000-2002) and Minister of Science and Technology (2002-2003). Thereafter, he served as Deputy, Senator and President of the Popular Party of Catalonia (2003-2007).

Mr Piqué holds a PhD in economic and business studies and is a law graduate from the University of Barcelona in which he also is a Lecturer of economic theory.

Regarding Mr Josep Piqué i Camps, EADS has undertaken a check of possible conflicts of interest between the Company and him, as chairman of an airline operating Airbus aircraft. EADS believes it has adequate policies in place to address any possible conflicts of interest, if and when necessary. Please refer to the Directors' Charter available on the Company's website [www.eads.com](http://www.eads.com) (Our Company / Our Governance).

**Mr Wilfried Porth**

Mr Wilfried Porth (53) is a Member of the Board of Management of Daimler AG and the Director of Labor Relations, responsible for Human Resources, IT-management and procurement of non-production material and services. Until 2006, he was Executive Vice President MB Van and prior to that, he was Chief Executive Officer of Mitsubishi

Fuso Truck & Bus Corp. He previously held various engineering management positions within the Daimler Group, including several years of experience abroad. Mr Porth graduated in engineering at the University of Stuttgart.

**Mr Jean-Claude Trichet**

Mr Jean-Claude Trichet (69) was president of the European Central Bank, president of the European Systemic Risk Board and president of the Global Economy meeting of Central Bank Governors in Basel until the end of 2011. Previously, he was in charge of the French Treasury for six years and was governor of Banque de France for ten years. Earlier in his

career, he held positions within the French Inspection Générale des Finances, as well as the Treasury department, and was advisor of the President of the Republic for microeconomics, energy, industry and research (1978-1981). Mr Trichet graduated from the École des Mines de Nancy, the Institut d'Études Politiques de Paris and the University of Paris in economics, is a *doctor honoris causa* from several universities and an alumnus of the École Nationale d'Administration.

**Mr Bodo K. Uebber**

Mr Bodo K. Uebber (52) was appointed Chairman of EADS in April 2009. He is a Member of the Board of Management of Daimler AG, responsible for Finance and Controlling (since 16 December 2004) as well as for the Daimler Financial Services division (since 16 December 2003). He previously held various leadership positions in finance within Dornier Luftfahrt GmbH, DASA AG and MTU Aero Engines GmbH. Mr Uebber was born on 18 August 1959 in Solingen. He graduated in 1985 with a degree in engineering and economics at the Technical University of Karlsruhe. In the same year, he joined Messerschmitt-Bölkow-Blohm GmbH (MBB).

Further information on each of the above-mentioned candidates is published on the Company's website at [www.eads.com](http://www.eads.com) (Our Company/Our Governance) and is also available, free of charge, at the Company's head offices.

The Board of Directors is satisfied that all Members being proposed for (re-) appointment shall demonstrate commitment to their roles and perform their duties diligently and effectively. They are each chosen for their broad and relevant experience and international outlook.

Subject to approval of their appointment by this AGM, the newly appointed Board of Directors intends to meet immediately after this AGM to elect Mr Arnaud Lagardère as the new Chairman of the Board of Directors and Mr Thomas Enders as the new Chief Executive Officer of EADS.

## FIFTEENTH AND SIXTEENTH RESOLUTIONS

### Appointment of the co-auditors for the financial year 2012

We recommend that the Company's co-auditors for the financial year 2012 should be Ernst & Young Accountants L.L.P. whose registered office is at Boompjes 258, 3011 XZ Rotterdam, The Netherlands, and KPMG Accountants N.V. whose registered office is at Rijnzathe 14, 3454 PV De Meern, The Netherlands. Our proposal is thus to renew the appointment of the same co-auditors based on their respective qualifications, performance and independence. They are designated as co-auditors, jointly responsible for auditing the accounts for the financial year 2012. They will put forward a single audit opinion.

## SEVENTEENTH RESOLUTION

### Removal of Articles 15, 16 and 17 of the Company's Articles of Association

We recommend that this AGM approve the amendment of the Company's Articles of Association by removing the obligations set out in Articles 15, 16 and 17 of the current Articles of Association of the Company to bring the Articles of Association in line with the Dutch statutory mandatory offer rules, which provide that shareholders are required to make a public offer for all issued and outstanding shares in the Company if they – individually or acting in concert, directly or indirectly – have 30% or more of the voting rights in the Company, except if pursuant to current or future applicable laws and regulations such obligation does not exist.

## EIGHTEENTH RESOLUTION

### Adoption of the compensation and remuneration policy of the Members of the Board of Directors

We recommend that this AGM adopt the compensation and remuneration policy for the Members of the Board of Directors, including the rights to subscribe for shares for the Executive Director, as described in the Board report (see Sections 4.3.1 "EADS' Remuneration Policy" and 4.3.2 "Remuneration of the Members of the Board").

For a report on the remuneration of the Members of the Board of Directors during the year 2011, see:

- ◎ Note 11 to the Company Financial Statements; and
- ◎ Notes 35 and 36 to the Consolidated Financial Statements (IFRS).

## NINETEENTH RESOLUTION

### Delegation to the Board of Directors of powers to issue shares and to set aside preferential subscription rights of existing shareholders

We recommend that this AGM approve the renewal of the authorisation to the Board of Directors to issue shares and to grant rights to subscribe for shares of the Company up to 0.15% of the authorised share capital, i.e. 4.5 million shares equivalent to 0.55% of the issued share capital, and to limit or exclude preferential subscription rights, for a period expiring at the AGM to be held in 2013, including specific powers to approve Employee Share Ownership Plans (**ESOP**), since the previous authorisation expires at the end of this AGM. The Company anticipates implementing an ESOP in 2012, which would have to be approved by the Board of Directors.

## TWENTIETH RESOLUTION

### Cancellation of shares repurchased by the Company

We recommend that this AGM approve the cancellation of the shares repurchased by the Company up to a maximum amount of 553,233 shares, to compensate the dilution effect resulting from the issuance of shares following the exercise of stock options under the 2002 stock option plan.

## TWENTY-FIRST RESOLUTION

### **Renewal of the authorisation for the Board of Directors to repurchase shares of the Company**

We recommend that this AGM approve the renewal of the authorisation to the Board of Directors to repurchase shares of the Company, for a new 18-month period by any means, including derivative products, on any stock exchange or otherwise. Although Dutch law allows companies to repurchase up to 50% of their share capital, EADS restricts itself to repurchase of up to 10% in accordance with its previous practice and general market practice.

This authorisation will supersede and replace the authorisation granted by the AGM on 26 May 2011.

The purposes of the share buy-back programme to be implemented by EADS will be determined on a case-by-case basis by the Board of Directors based on need. However, the main purpose of the programme is the reduction of share capital by cancellation of all or part of the repurchased shares, to avoid the dilution effect related to certain share capital increases reserved for employees of the EADS Group and/or in the context of the exercise of stock options.

For additional information on EADS' share buy-back programmes including their purposes, characteristics and status, the reader should refer to EADS' website at [www.eads.com](http://www.eads.com) (Investor Relations) and to the Registration Document posted thereon (see in particular Section 3.3.7.5 "Description of the share repurchase programme to be authorised by the Annual General Meeting of Shareholders to be held on 31 May 2012").



# Report of the Board of Directors

(Issued as of 7 March 2012)

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**Dear Shareholders,**

This is the Report of the Board of Directors (the “Board Report”) on the activities of European Aeronautic Defence and Space Company EADS N.V. (the “Company” or “EADS” and together with its subsidiaries, the “Group”) during the 2011 financial year, prepared in accordance with Dutch regulations.

For further information and detail regarding EADS’ activities, finances, financing, risk factors and corporate governance, please refer to the EADS website – [www.eads.com](http://www.eads.com).

## 1. General Overview

With consolidated revenues of €49.1 billion in 2011, EADS is Europe’s premier aerospace and defence company and the second largest aerospace and defence company in the world. In terms of market share, EADS is among the top two manufacturers of commercial aircraft, civil helicopters, commercial space launch vehicles and missiles, and a leading supplier of military aircraft, satellites and defence electronics.

In 2011, it generated approximately 76% of its total revenues in the civil sector and 24% in the defence sector.

EADS organises its businesses into the following four operating Divisions: (i) Airbus (including Airbus Commercial and Airbus Military), (ii) Eurocopter, (iii) Astrium, and (iv) Cassidian and employed a workforce of some 133,000 employees worldwide.

## 2. Main Events for 2011

2011 was a year of growth and progress for EADS, with strengthening momentum in the commercial aircraft market, reflected in new order and delivery records at Airbus. In the face of pressure on defence and public spending, EADS’ Divisions took further steps to strengthen their competitive position by investing in new products and capacities as well as driving efficiency programmes. EADS successfully steered the Group’s growth by managing several acquisitions in the services business during the year.

When EADS started the year 2011 it set itself the following “EADS Group Priorities for 2011”, which were shared with all employees:

1. stay focused on employee engagement and reinforce the positive momentum emerging from the survey. Foster trust, empowerment, proximity and innovation, reaching out to all our employees;
2. deliver and surpass EBIT<sup>(1)</sup> and cash flow targets, enabling implementation of Vision 2020 and funding of programmes. Achieve cost saving and transformation programmes;

3. capitalise on programme management improvements and deliver: stick to milestones on A350 and A400M – improve costs on A380, NH90, Tiger and Ariane 5 – tightly control Saudi Border Surveillance programme, Eurofighter, YahSat and CSO satellites, and tanker programmes;
4. ensure the successful launch or progress of key programmes: X4 helicopter, A320neo, participation in European drone programmes (Talarion), Ariane 5 Midlife Evolution and preparation of the Next Generation Launcher;
5. develop activities in services, security and defence through organic growth and acquisitions;
6. expand our business in North America and set strong and solid foundations in emerging countries through investment, partnerships, sourcing and recruitment;
7. ensure proper management of risks and opportunities (ERM); guarantee integrity and compliance of business processes, and uphold the new code of ethics;

(1) Unless otherwise indicated, EBIT\* figures presented in this report are Earning before Interest and Taxes, pre-goodwill impairment and exceptional.

8. through "Future EADS", foster integration by leaner functions, centres of competence and Shared Services;
9. promote eco-efficiency, innovation and quality as key elements of competitiveness through action plans in Divisions and at EADS Group level;
10. expand mobility in particular for managers and foster diversity on all levels.

Revenues in 2011 reached a new high of €49.1 billion. They increased by 7% thanks to growth from both volume and mix effects at Airbus and the increase of commercial activity at Eurocopter. These increases more than offset a slight decrease at Astrium and Cassidian. The overall 2011 revenue contribution from the first consolidation of the major acquisitions was around €300 million, mainly Vector Aerospace and Satair, while the EBIT\* impact was insignificant.

For the full year 2011, EADS reported an EBIT\* of €1,696 million. The EBIT\* before one-off of around €1.8 billion benefited from the underlying performance in growing Airbus legacy programmes. Also, Airbus Military and especially Eurocopter contributed to the performance improvement. At 31 December 2011, the order book of EADS reached €541 billion.

The net cash position of €11.7 billion at year-end is higher than anticipated due to improved performance and higher order intake.

In 2011 order intake amounted to €131 billion, driven by the strong momentum in commercial aviation and the rebound in the commercial helicopter market. Institutional markets including defence and public spending have to be monitored going forward in the context of budget pressure.

Thanks to the Group's good performance and despite depressed stock markets, the EADS share price gained 38% during the year 2011, and was the best performer of the CAC 40 and second-best of the MDAX indices.

The commercial success of the Airbus civil aircraft business with 1,419 net orders represented one of the highlights of the year, an overall industry record. This success was driven mainly by the A320neo (new engine option), which received 1,226 firm orders. The new aircraft will offer up to 15% less fuel burn compared to the current A320 single-aisle family and is due to enter into service in 2015.

The A350 XWB programme progressed, with the first major airframe sections delivered to the A350 XWB final assembly line in Toulouse at the end of 2011. Maturity of the A350 XWB main components at Final Assembly start remains one of the Group's top priorities. Start of Final Assembly is scheduled for Q1 2012 and Entry-into-Service is targeted for H1 2014, with the aim of achieving an appropriate maturity level at each step. As the A380 series production gained in maturity, deliveries on that programme increased to 26, from 18 in 2010. The A400M series production was launched early in 2011 and final assembly of the first aircraft for customer delivery began in November 2011. The A400M as well as the EC175

are flying a strong course towards certification. The Ariane 5 launcher completed its 46<sup>th</sup> consecutive successful take-off. The Eurofighter programme achieved its 300<sup>th</sup> delivery in 2011, making it the only new-generation multi-role aircraft to reach this milestone. Moreover, EADS' subsidiary ATR, recorded an exceptional order intake, with 119 firm orders, representing more than 80% of all regional aircraft orders in the range of 50 to 90 seats, according to internal estimates.

In the framework of its Vision 2020 goals, EADS conducted several important acquisitions to expand the services business across its Divisions. Airbus acquired the aviation parts distributor Satair. Astrium acquired Visada, a leading independent provider of global satellite-based communication services and Eurocopter purchased Canada-based Vector Aerospace, a specialist in helicopter maintenance.

In 2011, the global economic recovery remained uneven, with key issues still to be addressed such as the European sovereign debt crisis, the high level of US public debt and volatile capital inflows to emerging economies. Continued financial market volatility showed how fragile economic recovery still remains in developed markets, with the capital markets questioning the ability of sovereign nations to repay their debts. Also, despite some short-term exchange rate improvement in 2011, persistent US dollar weakness has continued to disadvantage EU companies with a cost base mainly in euros whereas US manufacturers continue to derive benefit from more attractively priced exports.

In 2011, the commercial aviation business experienced continued growth in passenger demand and positive profitability, despite the effects of the tsunami in Japan, unrest in the Middle East and North Africa and a high oil price level. However, regional differences still exist, with Asian Pacific carriers contributing nearly half of the profit, while profitability amongst European airlines as a whole was lower. Aircraft manufacturers experienced continued high demand for commercial aircraft, driven by growth needs in emerging markets and mature market replacement demand spurred by higher fuel prices. The competitive landscape among manufacturers is intensifying with several emerging players developing aircraft to position themselves in the single aisle market. Further consolidation in the supplier base also occurred due to the need for risk sharing partners and supplier rationalisation.

Defence and public spending faced downward pressure in Europe as well as in the US whereas in areas such as the Middle-East and Asia, defence spending has increased. While US and European defence budgets are expected to experience cuts over the coming years, the full impact on industry is still unclear. The need for some EU countries to reduce public sector spending but still maintain defensive capabilities has driven governments to look for ways to mitigate the impact on defence budgets. Thus, compromises need to be found between maintaining R&D and procurement budgets on the one hand and considering adaptations of the operational budgets on the other. The retirement of



platforms, planned cancellation of some procurement orders and a reduction in personnel are driving demand for closer collaboration between industry and end users, particularly in services.

Governments may therefore pursue further outsourcing of defence related services to industry players in order to achieve better value for money. Additionally, sustained growth in security spending both from government and private sectors has been driven by the need to respond effectively to emergency response requirements such as large-scale natural disasters, fires, flooding and earthquakes, as well as asymmetric terrorist threats and increasingly sophisticated cyber-attacks.

**Airbus** generated revenues of €33.1 billion in 2011, representing an increase of 10% compared to 2010. With 534 commercial aircraft deliveries to 88 customers in 2011, Airbus beat its previous record set last year by 24 aircraft. Deliveries included 421 A320 family aircraft, 87 A330s and 26 A380s. Airbus Military also delivered a record number of 29 aircraft consisting of 6 A330 MRTT, 20 light and medium military transport aircraft (C212, CN235 and C295) and three P-3 conversions. Airbus outperformed its order intake target by recording a total of 1,608 gross commercial aircraft orders, representing a 64% gross worldwide market share. Of these orders, the A320neo received 1,226 firm orders, confirming its title as the “fastest selling airliner ever”. Airbus also successfully completed the first flight-test of a Sharklet-fitted A320 at year-end. The first major sub-assemblies of the A350 XWB were delivered to Toulouse in 2011, ahead of the final assembly. In order to focus on preparing a robust and efficient production process, Airbus re-scheduled the start of final assembly to early 2012, with the first delivery planned for the first half of 2014. Deliveries ramped-up on the A380, rising to 26 for the year, while the programme received 29 new gross orders. At the end of 2011, a total of 67 A380s had been delivered to seven customers. The A400M programme is delivering results, having completed more than 2,600 flight hours in over 900 test flights up to the end of 2011, with a fifth aircraft joining the flight test programme. Finally, six A330-MRTTs were delivered to customers in 2011, including the four first MRTTs to the Royal Australian Air Force.

**Eurocopter** generated revenues of €5.4 billion in 2011, representing an increase of 12% compared to 2010. 503 helicopters were delivered to customers in 2011, including the 1,000<sup>th</sup> Dauphin and the 1,000<sup>th</sup> EC135. New net orders totalled 457 helicopters. These orders, mostly from outside Eurocopter's home countries, included key EC175 and EC225 contracts and confirm the recovery of the civil market, in particular in the US and in the light helicopters segment. The robust support and service activities were enhanced through the acquisition of Vector Aerospace and accounted for 38% of revenues in 2011. Despite a tough business environment, Eurocopter remained a leader on the worldwide civil and parapublic market with a 43% market share according to internal estimates. 32 NH90 and 16 Tiger helicopters were delivered in 2011. Five new customers took delivery of their first NH90 helicopter during the year, while the 100<sup>th</sup> NH90 was recently delivered. 2011 was also a year of innovation for

Eurocopter with the achievement of speed records with the X3 hybrid high-speed demonstrator aircraft, the presentation of the new EC145 T2 version and the launch of the future X4 helicopter intended to replace the Dauphin by the end of the decade.

At €5.0 billion, **Astrium** revenues remained stable in 2011 despite a challenging economic climate in institutional markets and increasing competition. New orders amounted to €3.5 billion and demonstrated continued momentum. At year-end the order book stood at €14.7 billion, equivalent to three years' worth of work. The Ariane 5 launcher continued to prove its reliability by completing five launches in one year, achieving its 46<sup>th</sup> successful launch in a row. Under an ESA initiative, Astrium is currently preparing the next generation of launchers, through the Ariane 5 ME (Mid-life Evolution), an expected programme due to enter service into service in 2017. During 2011, Astrium delivered 13 satellites including the first two Galileo IOV and signed contracts for six new satellites: four for telecommunication and two for Earth observation, representing 20% of the commercial satellite market. 2011 also saw the launch of the second Automated Transfer Vehicle (“**ATV**”) space craft, Johannes Kepler, which successfully docked with the International Space Station. Finally, Astrium Services was awarded a contract for implementation of the European data relay system, the future data highway in space.

**Cassidian** achieved stable revenues of €5.8 billion in 2011 and booked €4.2 billion of new orders whereas its market environment remains very challenging. The Eurofighter programme and MBDA missile programmes continued to be key revenue drivers, while new security programmes also contributed. Profitability declined slightly in line with expectations, due to higher self-funded research and development for future business and a restructuring charge. With the implementation of its transformation programme in 2011, the Division is adapting to the changing defence market by targeting growth outside Europe and developing new offerings in the security field. The Division also re-shaped its organisation to better address new markets and facilitate customer proximity. In core programmes, a major milestone was passed in 2011 with the delivery of the 300<sup>th</sup> Eurofighter, and production of Eurofighter Tranche 3A was secured until 2017. Within the field of unmanned aircraft systems (“**UAS**”), 2011 was marked by the successful ferry flight of the Euro Hawk from California to Germany in July. Cassidian also progressed with its self-funded Medium-Altitude Long-Endurance UAS initiative by further extending its international collaboration with Turkish Aerospace Industries, and Alenia Aermacchi and more recently formed a UAS partnership with RheinMetall. Finally, Cassidian signed a letter of intention with partner nations to continue full scale development of the next generation of e-scan radar, and reinforced its leading position in the radar market with the introduction of the next generation of naval radar TRS-4D and the SpeyerTM 1000 security radar.

**EADS** turned 2011 into a year of growth and improved performance, despite the European sovereign debt crisis and downward pressure on defence and public spending. EADS will seek to use this success to pave the way for further development in its second decade.

### 3. Share Capital and Stock Price Evolution

#### 3.1 Shareholding and voting rights

##### Issued share capital

As of 31 December 2011, EADS' issued share capital amounted to €820,482,291 divided into 820,482,291 shares of a nominal value of €1 each. The issued share capital of EADS as of such date represents 27.3% of the authorised share capital of €3,000,000,000 comprising 3,000,000,000 shares. The holder of one issued share has one vote and is entitled to the profit in proportion to his participation in the issued share capital.

##### Modification of share capital or rights attached to shares

Unless such right is limited or eliminated by the shareholders' meeting as described below, holders of shares have a pre-emptive right to subscribe for any newly issued shares pro rata to the aggregate nominal value of shares held by them, except for shares issued for consideration other than cash and shares issued to employees of the Company or of a Group company. For the contractual position as to pre-emption rights, see "— 3.2. Relationship with Principal Shareholders".

The shareholders' meeting has the power to issue shares. The shareholders' meeting may also authorise the Board of Directors for a period of no more than five years, to issue shares and to determine the terms and conditions of share issuances.

The shareholders' meeting also has the power to limit or to exclude pre-emption rights in connection with new issues of shares, and may authorise the Board of Directors for a period of no more than five years, to limit or to exclude pre-emption rights. All resolutions in this context must be approved by a two-thirds majority of the votes cast during the shareholders' meeting in the case where less than half of the capital issued is present or represented at said meeting.

Pursuant to the shareholders' resolution adopted at the annual general meeting ("AGM") held on 26 May 2011, the powers to issue shares and to grant rights to subscribe for shares which are part of the Company's authorised share capital and to limit or exclude preferential subscription rights for existing shareholders have been delegated to the Board of Directors provided that such powers shall be limited to 0.15% of EADS' authorised share capital. Such powers have been granted for a period expiring at the AGM to be held on 31 May 2012. Shareholders will therefore be asked to renew this authority at such AGM.

At the AGM held on 26 May 2011, the Board of Directors was authorised, for a period of 18 months from the date of such AGM, to repurchase shares of EADS, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, EADS would not hold more than 10% of EADS' issued share capital. Shareholders will be asked to renew this authority at the AGM to be held on 31 May 2012.

The shareholders' meeting may reduce the issued share capital by cancellation of shares or by reducing the nominal value of the shares by means of an amendment to the Articles of Association of EADS (the "Articles of Association"), the latter requiring the approval of at least two-thirds of the votes cast at the general meeting.

##### Securities granting access to the Company's capital

Except for stock options granted for the subscription of EADS shares (see "Notes to the Consolidated Financial Statements ("IFRS") — Note 35: Share-Based Payment"): there are no securities that give access, immediately or over time, to the share capital of EADS.

The table below shows the total potential dilution that would occur if all the stock options issued as at 31 December 2011 were exercised:

	Number of shares	Percentage of diluted capital	Number of voting rights	Percentage of diluted voting rights <sup>(1)</sup>
Total number of EADS shares issued as of 31 December 2011	820,482,291	97.9%	816,812,499	97.9%
Total number of EADS shares which may be issued following exercise of stock options	17,468,709	2.1%	17,468,709	2.1%
Total potential EADS share capital	837,951,000	100%	834,281,208	100%

(1) The potential dilutive effect on capital and voting rights of the exercise of these stock options may be limited as a result of the Company's share purchase programmes and in the case of subsequent cancellation of repurchased shares.



## Changes in the issued share capital in 2011

In 2011, EADS employees exercised 1,712,892 stock options granted to them through the stock option plans launched by the Company in 2002 and 2003. As a result, 1,712,892 new shares were issued in the course of 2011. The Company also issued 2,445,527 new shares in 2011 in connection with the employee share ownership plan.

78,850 treasury shares were cancelled in 2011 following approval by the AGM held on 26 May 2011.

## Repurchases of shares in 2011

During 2011, EADS repurchased in aggregate 553,233 shares directly or pursuant to contracts entered into with a bank to purchase EADS shares on EADS' behalf through derivative products in order to compensate the dilution effect resulting from the issuance of shares following the exercise of stock options under the Company's various stock option plans. Shareholders will be asked to approve the cancellation of 553,233 treasury shares at the AGM to be held on 31 May 2012.

## Shareholding structure and development in 2011

EADS combined the activities of Aerospatiale Matra ("Aerospatiale Matra" or "ASM"), Daimler Aerospace AG ("DASA AG") (with the exception of certain assets and liabilities) and Construcciones Aeronauticas SA ("CASA") pursuant to a series of transactions completed in July 2000.

In this document, the term "Completion" relates to the July 2000 completion of the contributions made by Aerospatiale Matra, DASA AG and Sociedad Estatal de Participaciones Industriales ("SEPI") (a Spanish stateholding company) to EADS to combine such activities into EADS.

The term "Indirect EADS Shares" relates to the EADS shares held by Daimler AG ("Daimler"), SEPI and Société de Gestion de l'Aéronautique, de la Défense et de l'Espace ("Sogeaide"), for which EADS Participations B.V. exercises all the attached voting rights, as well as, for Lagardère SCA ("Lagardère") and Société de Gestion de Participations Aéronautiques ("Sogepa"), or the companies of their group, the number of EADS shares held indirectly via Sogeaide, reflecting by transparency, their respective interest in Sogeaide.

Unless the context requires otherwise, the shareholdings of DASA AG in EADS are referred to in this document as shareholdings of Daimler, and the rights and obligations of DASA AG pursuant to the agreements described herein are referred to as rights and obligations of Daimler.

As at 31 December 2011, 22.35% of EADS' share capital was held by DASA AG, which is a 66.67% subsidiary of Daimler Luft- und Raumfahrt Holding AG ("DLRH"), a wholly owned subsidiary of Daimler. The remaining 33.33% of DASA AG is held by a consortium of private and public-sector investors. Sogeaide, a French partnership limited by shares (*société en commandite par actions*) whose share capital, as at 31 December 2011, is held 66.67% by Sogepa (a French state holding company) and 33.33% by Désirade (a French *société*

*par actions simplifiée* wholly owned by Lagardère), held 22.35% of the share capital of EADS. Thus, 44.70% of the share capital of EADS was held by Daimler and Sogeaide who jointly control EADS through a Dutch law contractual partnership managed by EADS Participations B.V. (the "Contractual Partnership"). SEPI, which is a party to the Contractual Partnership, held 5.45% of the share capital of EADS. The public (including EADS employees) and the Company held, respectively, 49.35% and 0.45% of the share capital of EADS. The République Française (the "French State") held directly 0.06% of the share capital, such shareholding being subject to certain specific provisions.

In April 2006, Daimler reduced by 7.5% its stake in EADS and Lagardère issued bonds redeemable into EADS shares, as a result of which it is committed to reduce its stake in EADS by 2.5% in June 2007, 2.5% in June 2008 and 2.5% in June 2009, i.e. a total of 7.5%.

On 9 February 2007, Daimler reached an agreement with a consortium of private and public-sector investors ("Dedalus") by which it effectively reduced its shareholding in EADS from 22.5% to 15%, while maintaining the balance of voting rights between German and French shareholders. The Dedalus consortium thereby acquired a 7.5% equity interest in EADS, with Daimler continuing to control the voting rights of the entire 22.5% package of EADS shares. If this structure is dissolved, Daimler has the right either to provide the investors with EADS shares or to pay cash compensation. If EADS shares are provided, the German State, and the French State and Lagardère through Sogeaide, will be entitled to pre-empt such EADS shares to retain the balance between the German and the French side.

On 26 January 2009, Lagardère and Natixis, the sole subscriber to and sole holder of the outstanding mandatory exchangeable bonds issued by Lagardère in 2006, signed an amendment to the subscription contract whereby they agreed, on the initiative of Natixis, to bring forward the redemption date of the mandatory exchangeable bonds – and consequently, the delivery date of the third instalment of EADS shares – from 25 June 2009 to 24 March 2009. Under the terms of this amendment, Lagardère delivered 20,370,000 EADS shares, representing 2.5% of the capital and voting rights of EADS, to Natixis on 24 March 2009.

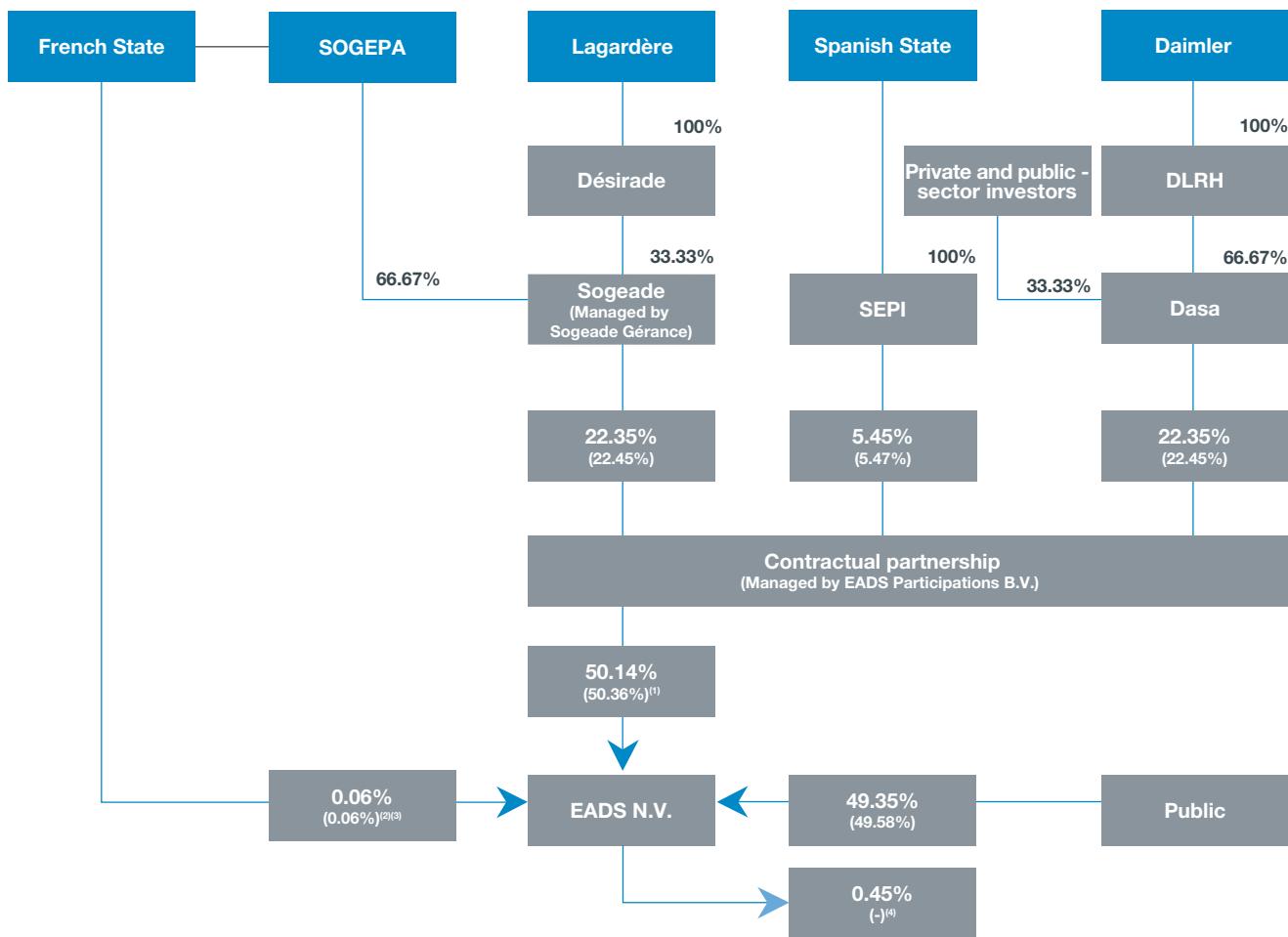
On 19 March 2010, Daimler and the Dedalus consortium of private and public-sector investors confirmed to continue the agreement reached on 9 February 2007 concerning the equity interests and voting rights in EADS (as discussed above). At Germany's Federal Chancellery on 16 March 2010, Daimler and the investors stated their willingness to continue the existing agreement without any changes. As a result, Daimler continued to hold 22.5% of the voting rights in EADS while its economic interest remained at 15%. Thus, the existing balance of voting rights between German and French shareholders was unchanged.

On 10 November 2011, Daimler announced that it had reached a joined understanding with the German federal government that the state-owned KfW bank group would take over a 7.5% equity interest in EADS from Daimler, with the sale slated to take place in 2012. Daimler also announced that it had agreed

with the German government to hold conclusive discussions in the near future about the long-term structure of the Dedalus investor consortium, which was set up in 2007 and confirmed in 2010 (as discussed above). The consortium already holds 7.5% of EADS, and Daimler has stated that the shared understanding is that the Dedalus investor consortium should fundamentally continue to exist.

The voting rights of the Dedalus investor consortium would remain with Daimler for the time being. As a result, after the planned transfer of shares to KfW bank group, Daimler would reduce its economic interest in EADS to 7.5% and its voting rights to 15%. The voting rights of Daimler and KfW would be pooled in an intermediate holding company.

The diagram below shows the ownership structure of EADS as at 31 December 2011 (% of capital and of voting rights (in parentheses) before exercise of outstanding stock options granted for the subscription of EADS shares). See "Notes to the Consolidated Financial Statements ("IFRS") – Note 35: Share-Based Payment".



(1) EADS Participations B.V. exercises the voting rights attached to these EADS shares pledged by Sogeadate, Daimler and SEPI who retain title to their respective shares.

(2) The French State exercises the voting rights attached to these EADS shares (such shares being placed with the Caisse des Dépôts et Consignations) in the same way that EADS Participations B.V. exercises the voting rights pooled in the Contractual Partnership.

(3) Shares held by the French State following the distribution without payment of consideration to certain former shareholders of Aerospatiale Matra as a result of its privatisation in June 1999. All the shares currently held by the French State will have to be sold on the market.

(4) As at 31 December 2011, the Company holds, directly or indirectly through another company in which the Company holds directly or indirectly more than 50% of the share capital, 3,669,792 of its own shares. The EADS shares owned by the Company itself do not carry voting rights.

For the number of shares and voting rights held by Members of the Board of Directors and Executive Committee, see "Notes to the Company Financial Statements – Note 11: Remuneration".



## Right to attend meetings

Each holder of one or more shares may attend shareholders' meetings, either in person or by written proxy, speak and vote according to the Articles of Association.

A shareholder or person who has the right to attend a meeting can see to it that he is represented by more than one proxy holder, provided that only one proxy holder can be appointed for each share.

The persons who have the right to attend and vote at shareholders' meetings are those who are so on record in a register designated for that purpose by the Board of Directors on the twenty-eighth day prior to the day of the shareholders' meeting (the "**Registration Date**"), irrespective of who may be entitled to the shares at the time of that meeting.

Any person who is entitled to exercise the rights set out in the above paragraph (either in person or by means of a written proxy) and is attending the Meeting from another location in such a manner that the person acting as Chairman of the Meeting is convinced that such a person is properly participating in the Meeting, shall be deemed to be present or represented at the Meeting, shall be entitled to vote and shall be counted towards a quorum accordingly.

As a prerequisite to attending the shareholders' meeting and to casting votes, the Board of Directors, or alternatively an entity or person so designated by the Board of Directors, should be notified in writing by each holder of one or more shares and those who derive the aforementioned rights from these shares, not earlier than the Registration Date, of the intention to attend the Meeting. Ultimately this notice must be received by the Board of Directors, or alternatively an entity or person so designated by the Board of Directors, on the day mentioned in the convening notice.

Holders of shares that are registered in the shareholders' register kept in Amsterdam have the option of holding them through Euroclear France S.A. In this case the shares are registered in the name of Euroclear France S.A.

Shareholders holding their EADS shares through Euroclear France S.A. who wish to attend general meetings will have to request from their financial intermediary or accountholder an admission card and be given a proxy to this effect from Euroclear France S.A. in accordance with the instructions specified by the Company in the convening notice. For this purpose, a shareholder will also be able to request that it be registered directly (and not through Euroclear France S.A.) in the register of the Company. However, only shares registered in the name of Euroclear France S.A. may be traded on stock exchanges.

In order to exercise their voting rights, the shareholders will also be able, by contacting their financial intermediary or accountholder, to give their voting instructions to Euroclear France S.A. or to any other person designated for this purpose, as specified by the Company in the convening notice.

Pursuant to its Articles of Association, EADS may provide for electronic means of attendance, speaking and voting at the shareholders' meetings. The use of such electronic means will depend on the availability of the necessary technical means and market practice.

## Mandatory public offer

### Dutch law

In accordance with Dutch law, shareholders are required to make a public offer for all issued and outstanding shares in the Company's share capital if they – individually or acting in concert (as such terms are defined below), directly or indirectly – have 30% or more of the voting rights (significant control) in the Company. In addition to the other available exemptions listed below, the requirement to make a public offer does not apply to persons, who at the time the takeover provisions under Dutch law came into force, already held – individually or acting in concert – 30% or more of the voting rights in the Company.

Under Dutch law, natural persons, legal entities or companies are "acting in concert" if they cooperate on the basis of an agreement with the objective to acquire significant control (as defined above) in the target company, or if they cooperate with the target company with the objective to prevent the success of an announced public offer for the shares in such target company. The following categories of natural persons, legal entities or companies are deemed to be "acting in concert" under Dutch law: (i) legal entities or companies that form a group of companies, (ii) legal entities or companies and their subsidiaries, and (iii) natural persons and their subsidiary companies.

In addition to the exemption stated above, the obligation to make a public offer does not apply to the natural person, legal entity or company that, amongst others:

- acquires significant control as a result of declaring unconditional a public offer made for all shares (or depositary receipts) in the target company;
- is a legal entity, independent from the target company, that acquires significant control after a public offer has been announced by a third party, provided that such entity (i) holds the shares in the target company for a maximum period of two years and for purposes of protection of the target company and (ii) the corporate objects of such entity are to preserve the interests of the target company;
- is a legal entity, independent from the target company, which has issued depositary receipts for the shares in the target company;
- acquires significant control as a result of: (i) an intra-group transfer of the shares representing significant control; or (ii) a transfer between a parent company and its subsidiary;
- acquires significant control acting in concert with one or more other natural persons, legal entities or companies, in which case the obligation to make a public offer lies

with the natural person, legal entity or company that can exercise most of the voting rights in the General Meeting of Shareholders of the target company;

- ◎ acts as a custodian (if and to the extent it cannot exercise any voting rights in its sole discretion).

The obligation to make a public offer also does not apply if:

- ◎ the natural person, legal entity or company, after acquiring significant control, loses such control within a thirty day grace period, unless (i) loss of control is due to a transfer to a natural person, legal entity or company to which one of the exemptions set out above applies, or (ii) the acquirer of the significant control has exercised its voting rights during this thirty day period; or
- ◎ the target company's General Meeting of Shareholders agrees upfront with the acquisition of significant control – and any subsequent acquisition of shares – by a third party with 95% of votes cast in favour of such proposal, excluding any votes by such third party and any of its concert parties.

Under Dutch Law, a minority shareholder may also make a request for his shares to be purchased by an offeror who holds at least 95% of the issued share capital and the voting rights. This claim must be brought before the Enterprise Chamber of the Court of Appeals in Amsterdam within the three-month period after the closing of the acceptance period of the public offer.

## Articles of Association

Pursuant to Article 15 of the Articles of Association, in the event that a direct or indirect acquisition of shares in the Company results in a person acting alone or in concert holding shares or voting rights where the control over the number of shares or votes reaches or exceeds 33 1/3% of the issued share capital of the Company then such person(s) is (are) required to make an unconditional public offer to all shareholders to acquire all of their shares or to procure that such an offer is made. Such offer must comply with all of the applicable regulatory or other legal requirements in each jurisdiction in which the Company's shares are listed.

Pursuant to Article 16 of the Articles of Association, in the event of a failure to launch such an offer (or if the offer does not satisfy the relevant legal or regulatory requirements in each of the jurisdictions where the Company's shares are listed) within two months after notification to the Company of shareholdings reaching or exceeding 33 1/3% or failing such notification, within a period of 15 days of receipt of notice from the Board of Directors confirming the obligation to make the public offer, then any person(s) who is (are) required to make the offer shall within the period specified by the notice sent by the Board of Directors exchange for depositary receipts to be issued by the Stichting Administratiekantoor EADS (the "Foundation"), such percentage of shares they hold over and above the

33 1/3% of the shares issued by the Company (the "Excess Percentage"). From the date specified in the notice sent by the Board of Directors, the right to attend meetings, to vote and to receive dividends shall be suspended in respect of the Excess Percentage. If, within a period of 14 days from a further notice from the Board of Directors, the person required to exchange his shares representing his Excess Percentage for depositary receipts still has not done so, then the Company is irrevocably authorised to exchange such shares for depositary receipts issued by the Foundation. The constitutive documents of the Foundation provide that the Foundation shall not have the right to attend shareholders' meetings of the Company as a shareholder, to speak at such meetings and to exercise the voting rights attached to the shares it holds, except if, in the view of the board of the Foundation, such action is required for the performance of the mandatory offer provisions in the Articles of Association.

The obligation to make a public offer does not apply in the following situations (Article 17 of the Articles of Association):

- ◎ to a transfer of shares to the Company itself or to the Foundation;
- ◎ to a securities custody, clearing or settlement institution acting in that capacity, provided that the provisions of Article 16 of the Articles of Association described above shall be applicable where shares are held for persons acting in breach of the provisions of Articles 15 and 16 of the Articles of Association described above;
- ◎ to a transfer of shares by the Company or to an issue of shares by the Company on a merger or on an acquisition by the Company of another company or business;
- ◎ to a transfer of shares from one party to another party who is a party to an agreement as envisaged under Dutch law to define "concert parties" where the agreement is entered into before 31 December 2000 (as amended, supplemented or replaced by a new agreement by the admission of one or more new parties or the exclusion of one or more parties) except that this exemption will not apply to a new party that individually or with its subsidiaries and/or group companies holds at least 33 1/3% of the control over shares or votes in the Company; this exemption is intended to exclude the parties to the Participation Agreement (See "3.2. Relationship with Principal Shareholders") as amended, supplemented or replaced by a new agreement by the admission of one or more new parties or the exclusion of one or more parties from the obligation to make the mandatory offer in the event of a transfer of shares between themselves; or
- ◎ to a transfer by a shareholder to a subsidiary in which it holds more than 50% or by a shareholder to a company which holds more than 50% in such transferring shareholder.



## Amendments to the Articles of Association

According to the Articles of Association, resolutions to amend the Articles of Association require a two-thirds majority of the votes validly cast at a General Meeting of Shareholders.

### 3.2 Relationship with principal shareholders

Below is a summary of the agreements governing the relationship between the founders of EADS, entered into at the time of the creation of EADS with respect to: (i) restriction on the exercise of voting rights and (ii) restriction of rights to transfer shares.

The principal agreements governing the relationships between the founders of EADS are (i) an agreement (the "Participation Agreement") entered into on Completion between Daimler, DASA AG, Lagardère, Sogepa, Sogeade and SEPI, and (ii) a Dutch law Contractual Partnership agreement entered into on Completion between Sogeade, DASA AG, SEPI and EADS Participations B.V. (the "Contractual Partnership Agreement"), which repeats certain terms of the Participation Agreement and a certain number of other agreements (notably, a shareholder agreement (the "Sogeade Shareholders' Agreement") entered into on Completion between Sogepa and Lagardère and an agreement between the French State, Daimler and DLRH). EADS Participations B.V. is a Dutch private company with limited liability and is the managing partner of the Contractual Partnership. The Indirect EADS Shares held by Daimler, Sogeade and SEPI have been pledged to EADS Participations B.V., which has been granted the exclusive power to exercise the voting rights attached to the pledged shares (including the right to attend and speak at shareholders' meetings) in accordance with the Contractual Partnership Agreement.

The agreements above contain, among other things, provisions relating to the following matters:

- ◎ the composition of the Boards of Directors of EADS, EADS Participations B.V. and Sogeade Gérance (gérant commandité de Sogeade);
- ◎ restrictions on the transfer of EADS shares and Sogeade shares;
- ◎ pre-emptive and tag-along rights of Daimler, Sogeade, Sogepa and Lagardère;
- ◎ defences against hostile third parties;
- ◎ consequences of a change of control of Daimler, Sogeade, Lagardère, Sogepa or SEPI;
- ◎ a put option granted by Sogeade to Daimler over its EADS shares in certain circumstances;
- ◎ specific rights of the French State in relation to certain strategic decisions, regarding among other issues, EADS' ballistic missiles activity; and

The proposal containing the literal text of the proposed amendment must be available for inspections by shareholders at EADS' headquarters and at a location in Amsterdam to be determined by the Board of Directors, from the day the Meeting is convened until after the end of the Meeting.

- ◎ certain limitations on the extent of the French State's ownership of EADS.

Further details on the agreements among the principal shareholders of EADS are set out below.

#### Organisation of EADS Participations B.V.

The Board of Directors of EADS Participations B.V. has an equal number of Directors nominated by Daimler and by Sogeade, respectively (taking into account proposals made by Lagardère in respect of the Sogeade-nominated Directors). Daimler and Sogeade each nominate two Directors, unless otherwise agreed, and the Daimler-Directors and the Sogeade-Directors jointly have the right to nominate and to remove the Chairman and the Chief Executive Officer. In addition, SEPI has the right to nominate a Director, as long as the shareholding of SEPI in EADS is 5% or more but in any case until the AGM to be held in 2012. The Chairman shall either have French or German nationality and the Chief Executive Officer shall have the other nationality.

This structure gives Daimler and Sogeade equal nominating rights in respect of the majority of the Directors of the decision-making body of EADS Participations B.V. All decisions of EADS Participations B.V.'s Board of Directors shall require the vote in favour of at least four Directors.

#### Transfer of EADS shares

Daimler, Sogeade, SEPI, Lagardère and Sogepa each have the right to sell its EADS shares on the market, subject to the following conditions:

- ◎ if a party wishes to sell any EADS shares, it shall first sell its shares other than its Indirect EADS Shares before exercising its right to sell its Indirect EADS Shares in accordance with the provisions set out below;
- ◎ on the sale of Indirect EADS Shares, Daimler (in the case of a sale by Sogeade), Sogeade (in the case of a sale by Daimler) or Sogeade and Daimler (in the case of a sale by SEPI) may either exercise a pre-emption right or sell its Indirect EADS Shares on the market in the same proportions as the respective Indirect EADS Shares of the relevant parties bear to each other;
- ◎ any transfer of Indirect EADS Shares by either Sogepa or Lagardère is subject to a pre-emption right in favour of Lagardère or Sogepa, as the case may be. In the event that such pre-emption right is not exercised, the Indirect EADS

Shares may be sold (i) to an identified third party subject to Lagardère's or Sogepa's consent (as the case may be) and also to Daimler's consent and (ii) if such consent is not obtained, the Indirect EADS Shares may be sold on the market, subject to Daimler's pre-emption right referred to above;

- ◎ Lagardère and Sogepa shall each have a proportional right to tag-along on a sale of its Indirect EADS Shares; and
- ◎ the pre-emption and tag-along rights of Lagardère and Sogepa referred to above do not apply to a transfer of EADS shares directly held by one of them.

Any sale on the market of EADS shares in accordance with the Participation Agreement shall be conducted in an orderly manner so as to ensure the least possible disruption to the market of EADS shares. To this effect, the parties shall consult with each other before any such sale.

## Control of EADS

In the event that a third party to which Daimler or Sogeaede objects (a "Hostile Third Party") has a direct or indirect interest in EADS shares equal to 12.5% or more of the number of such EADS shares the voting rights of which are pooled through the Contractual Partnership (a "Qualifying Interest"), then, unless a Hostile Offer (as defined below) has been made by the Hostile Third Party or until such time as Daimler and Sogeaede agree that the Hostile Third Party should no longer be considered a Hostile Third Party or the Hostile Third Party no longer holds a Qualifying Interest, the parties to the Participation Agreement shall exercise all means of control and influence in relation to EADS to avoid such Hostile Third Party increasing its rights or powers in relation to EADS.

## 3.3 Future Employee Share Ownership Plans and Long-Term Incentive Plan

In the past, EADS has implemented the Employee Share Ownership Plans ("ESOP") and Long-Term Incentive Plans ("LTIP") to retain and reward EADS employees.

Pursuant to shareholders' resolutions adopted at the AGM, the powers to issue shares and to set aside preferential subscription rights of existing shareholders have been granted to the Board of Directors. Such powers include the approval of ESOP and LTIP plans.

Under ESOP and LTIP, the Board of Directors shall have the discretionary authority to offer shares and grant performance and/or restricted units to employees who, in the sole judgment

The parties to the Participation Agreement may accept an offer (whether by way of tender offer or otherwise) by a Hostile Third Party which is not acceptable to either Daimler or Sogeaede (a "Hostile Offer"), subject to provisions requiring, *inter alia*, the party wishing to accept, to first offer its EADS shares to Daimler and/or Sogeaede, in which case Daimler and/or Sogeaede may exercise their pre-emption rights in respect some or all of the EADS shares held by the party wishing to accept the Hostile Offer.

Any sale of EADS shares, other than the EADS Indirect Shares, by Daimler, Sogeaede or Lagardère, at a time when a Hostile Third Party is a shareholder and purchaser of EADS shares on the market, is subject to the pre-emption right of Sogeaede, Daimler and Sogepa respectively. In the case of a sale by Lagardère, if Sogepa does not exercise its right of pre-emption, Daimler has in turn a pre-emption right.

### Pledge over EADS' shares granted to EADS Participations B.V.

Upon Completion and in order to secure their undertakings under the Contractual Partnership Agreement and the Participation Agreement, Sogeaede, Daimler and SEPI granted a pledge over their respective Indirect EADS Shares to EADS Participations B.V. for the benefit of EADS Participations B.V. and the other parties to the Contractual Partnership Agreement.

### Related party transactions

See "Notes to the Consolidated Financial Statements ("IFRS") Note 36: Related Party Transactions".

of the Board of Directors, are eligible thereto and to subject such grant, as the case may be, to performance conditions; each unit giving right to payment in cash.

### Elements of ESOP and LTIP (Details)

For further descriptions of ESOP and LTIP programmes with additional information, see: "4.3.1.2. Detailed Remuneration Policy" and "4.3.4 Employee Share Ownership Plan".



## 3.4 Share price evolution 2011

In 2011, EADS was by far the best performer of the CAC 40, and second best amongst MDAX stocks. Over the course of the year EADS shares gained 38% while the CAC 40 fell -17%, the DAX -15% and the MSCI aerospace sector rose 1.4%. In a turbulent market environment, EADS benefited from brisk order flow, robust fundamentals and growing confidence amongst investors that its major programmes – although risks exist – are progressing.

Up to mid-February, EADS shares followed the positive market trend with general optimism about the global economy further supported by analysts' upgrades and news flow on potential orders. The share price reached a peak of €22.03 on 16 February, before retreating in line with the general market as fears grew over oil production in Libya. Having closed at €18.60

on 16 March following the Japanese tsunami catastrophe, the EADS share price began a steep climb, driven by huge orders during and after the Paris Air Show, reaching a peak of €25.04 on 25 July. At this time, concerns about the European sovereign debt escalated, spilling over into fears for the banking system as a whole.

EADS shares fell to €19.81 on 8 August in the wake of a general market crash. After a period of high volatility, the EADS share progressed again from the end of November after the group increased its guidance on the main financial drivers of 2011 and adjusted the schedule of the A350 XWB programme. Analysts expressed increasing confidence about EADS' future prospects, while the US dollar strengthened against the euro. On 30 December 2011, the EADS share price closed at €24.15.

## 3.5 Dividend policy

Based on an Earnings per Share ("EPS") of €1.27, the EADS Board of Directors proposes payment on 7 June 2012 of a dividend of €0.45 per share to the Annual General Meeting of Shareholders (FY 2010: €0.22 per share). The record date should be 6 June 2012.

It is converging towards a pay-out ratio in line with sector and industry peers. From a Board perspective, as the Company is maturing, this policy shall be the orientation for the future.

## 3.6 Shareholder communication policy

EADS continually strives to improve relations with its shareholders. In addition to communication with its shareholders at shareholder information sessions and the Annual General Meeting of Shareholders, EADS provides briefings on its annual, semi-annual and quarterly results during public conference calls which are accessible in real-time through its website. EADS also publishes annual, semi-annual and quarterly reports and presentations, as well as press releases and other information for investors which are available on its website.

EADS regularly engages in communications with investors or analysts via road shows, group or bilateral meetings, site visits, broker conferences and other events including investor forums, with presentations generally made available on EADS' website. The purpose of these meetings is to ensure that shareholders and the investment community receive a balanced and complete view of the Company's performance and the issues faced by the business, as well as to receive feedback from shareholders. At all times, the Company's policy is to act in strict compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

## 4. Corporate Governance

### 4.1 Management and control

#### 4.1.1 Composition, powers and rules

Pursuant to the Articles of Association, the Board of Directors is responsible for the management of the Company.

The Board of Directors consists of a maximum of eleven Members appointed and removed by the shareholders' meeting. The Board of Directors adopted rules governing its internal affairs (the "Rules") at a Board of Directors meeting held on 7 July 2000. The Rules were amended at a Board of Directors meeting held on 5 December 2003 to take into account recommendations for changes to corporate governance. The Rules were further amended at a Board of Directors meeting held on 22 October 2007, to take into account the corporate governance modifications approved during the Extraordinary General Meeting of Shareholders held the same day.

The Rules specify the composition, the role and the key responsibilities of the Board of Directors, and also determine the manner of appointment and the responsibilities of the Chairman and the Chief Executive Officer. Furthermore, the Rules also stipulate the creation of three committees (the Audit Committee, the Remuneration and Nomination Committee, and the Strategic Committee) and specify their composition, role and operating rules.

The parties to the Participation Agreement (as amended on 22 October 2007 and as referred to in paragraph 3.4 hereof) have agreed that the voting rights attached to the Indirect EADS Shares shall be exercised by EADS Participations B.V. to ensure that the Board of Directors of EADS comprises the Directors of EADS Participations B.V. and four additional independent Directors.

According to the Rules, an independent Director is defined as "a Director who is not an officer, Director, employee, agent or otherwise has any significant commercial or professional connection with the DASA Group, the Lagardère Group, the Sogepa Group, the SEPI Group, the French State, the German State, the Spanish State or the EADS Group".

Pursuant to the Participation Agreement, the Board of Directors comprises eleven Members as follows:

- ⦿ one Non-Executive Chairman, appointed on joint proposal by the Daimler-Directors and the Sogeadé-Directors;
- ⦿ the Chief Executive Officer of EADS, appointed on joint proposal by the Daimler-Directors and the Sogeadé-Directors;
- ⦿ two Directors nominated by Daimler;
- ⦿ two Directors nominated by Sogeadé;

⦿ one Director nominated by SEPI, so long as the Indirect EADS Shares held by SEPI represent 5% or more of the total number of EADS Shares but in any case until the AGM to be held in 2012; and

⦿ four independent Directors jointly proposed by the Chairman and the Chief Executive Officer of EADS and individually approved by the Board of Directors.

Pursuant to the Articles of Association, each Member of the Board of Directors holds office for a term expiring at the AGM to be held in 2012. Members of the Board of Directors will retire at each fifth AGM thereafter.

The shareholders' meeting may at all times suspend or dismiss any Member of the Board of Directors. There is no limitation on the number of terms that a Director may serve.

The Board of Directors appoints a Chairman, upon the joint proposal of the Daimler-Directors and the Sogeadé-Directors. The Chairman ensures the smooth functioning of the Board of Directors in particular with respect to its relations with the Chief Executive Officer with whom he teams up for top level strategic discussions with outside partners, which are conducted under his supervision.

The Chairman shall have either French or German nationality, provided that the Chief Executive Officer is of the other nationality.

The Chairman can submit his resignation as Chairman to the Board of Directors or can be dismissed as Chairman by the Board of Directors, upon the joint proposal of the Daimler-Directors and the Sogeadé-Directors. The appointment further terminates if the Chairman is dismissed or resigns as Director. Immediately following the dismissal or resignation of the Chairman, and if the Daimler-Directors and the Sogeadé-Directors do not immediately jointly designate a new Chairman, the Board of Directors appoints by simple majority a Director (with the same citizenship as the former Chairman) as interim Chairman for a period which expires at the earlier of either (i) twenty clear days after the Daimler-Directors and the Sogeadé-Directors jointly designate a new Chairman (during which period, a Board of Directors meeting is called in order to appoint the new Chairman, upon the joint proposal of the Daimler-Directors and the Sogeadé-Directors), or (ii) two months from that interim Chairman's appointment.

Upon request by any Member of the Board of Directors made three years after the beginning of the Chairman's term and alleging that significant adverse deviation(s) from objectives and/or failure(s) to implement the strategy defined by the Board of Directors occurred, the Board of Directors shall meet, to decide whether deviations and/or failures actually occurred



during this period and if so, to decide whether to renew its confidence to the Chairman (the "Vote of Confidence"). The Board of Directors resolves upon such Vote of Confidence by simple majority. The Chairman is removed if he does not obtain such Vote of Confidence, a new Chairman being then appointed in accordance with the above.

Upon the joint proposal by the Daimler-Directors and the Sogea-de-Directors, the Board of Directors has appointed a Chief Executive Officer to be responsible for the day-to-day management of the Company. The way the Chief Executive Officer can resign or be dismissed and the way the Chief Executive Officer would, if any, be replaced are identical to those applying to the Chairman. The Vote of Confidence procedure stated above is also applicable to the Chief Executive Officer under the same conditions as for the Chairman.

## **Powers of the Members of the Board of Directors**

The Company is represented by the Board of Directors or by the Chief Executive Officer. The Chief Executive Officer may not enter into transactions that form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors.

The key responsibilities of the Board of Directors include amongst others:

- ◎ approving any change in the nature and scope of the business of the Group;
- ◎ approving any proposal to be submitted to the General Meeting of Shareholders in order to amend the Articles of Association ("Qualified Majority", as defined below);
- ◎ approving the overall strategy and the strategic plan of the Group;
- ◎ approving the operational business plan and the yearly budget of the Group;
- ◎ setting the major performance targets of the Group;
- ◎ monitoring on a quarterly basis, the operating performance of the Group;
- ◎ designating or removing the Chairman and the Chief Executive Officer and deciding upon the designation or removal of the Chief Executive Officer of Airbus; it being understood that (i) the Chairman and the Chief Executive Officer of Airbus shall be of the same citizenship, either French or German, and the Chief Executive Officer and the Airbus COO of the other citizenship, and (ii) the Chief Executive Officer and the Airbus Chief Executive Officer may not be the same person ("Qualified Majority");
- ◎ appointing the Members of the Executive Committee (see below), as a whole team, not on an individual basis;
- ◎ establishing and approving amendments to the Rules and to the rules for the Executive Committee ("Qualified Majority");
- ◎ deciding upon the appointments of the Airbus Shareholder Committee, the EADS Corporate Secretary and the chairman

of the Supervisory Board (or similar organ) of other important Group companies and Business Units;

- ◎ approving material changes to the organisational structure of the Group;
- ◎ approving investments, projects or product decisions or divestments of the Group with a value exceeding €350,000,000 (it being understood that this item shall require the "Qualified Majority" only for investments, projects or product decisions or divestments of the EADS Group with a value exceeding €500,000,000);
- ◎ approving strategic alliances and co-operation agreements of the Group ("Qualified Majority");
- ◎ approving of principles and guidelines governing the conduct of the Group in matters involving non-contractual liabilities (like environmental matters, quality assurance, financial announcement, integrity) as well as the corporate identity of the Group;
- ◎ approving matters of shareholder policy, major actions or major announcements to the capital markets;
- ◎ approving any material decision regarding the ballistic missiles business of the Group ("Qualified Majority");
- ◎ approving other measures and business of fundamental significance for the Group or which involve an abnormal level of risk; and
- ◎ approving any proposal by the Chairman and the Chief Executive Officer as to the appointment of the independent Directors, for submission to the AGM.

## **Voting and rules**

Each Director has one vote, provided that, if there are more Sogea-de-nominated Directors than Daimler-nominated Directors present or represented at the meeting, the Daimler-nominated Director who is present at the meeting can exercise the same number of votes as the Sogea-de-nominated Directors who are present or represented at the meeting, and vice versa. All decisions of the Board of Directors are taken by a simple majority of votes (six Directors, present or represented, voting in favour of the decision), except for the votes relating to certain matters which can only be validly resolved upon a majority of votes including the unanimous vote of the two Sogea-de-nominated Directors and the two Daimler-nominated Directors (the "Qualified Majority"). The quorum for the transaction of business at meetings of the Board of Directors requires the presence of at least one of the Sogea-de-nominated Directors and one of the Daimler-nominated Directors. A Director can authorise another Director to represent him or her at a Board of Directors meeting and to vote on his or her behalf. Such authorisation must be in writing.

In the event of a deadlock in the Board of Directors, other than a deadlock giving Daimler the right to exercise the put option granted to it by Sogea-de, the matter shall be referred to Arnaud Lagardère (or such person as shall be nominated by Lagardère) as representative of Sogea-de and to the Chief Executive Officer of Daimler. In the event that the matter in question, including a

deadlock giving Daimler the right to exercise the put option (but in this case with the agreement of Sogepa and Daimler) is a matter within the competence of the general meeting of EADS, a resolution on the issue shall be put to the general meeting, with the voting rights of Sogeadade, Daimler and SEPI being negated.

Pursuant to the Rules, the Board of Directors may form committees from its Members. In addition to the Audit Committee, the Remuneration and Nomination Committee and the Strategic Committee, the Board of Directors may form other committees to which it may transfer certain minor or ancillary decision-making functions although such assignment does not negate the joint responsibility of all Directors. The quorum for the transaction of business at any meeting of a committee requires the presence of at least one of the Sogeadade-nominated

Directors and one of the Daimler-nominated Directors. All decisions of a committee require the simple majority of the Members.

In addition to the Rules, the work of the Board of Directors is governed by internal directors' guidelines (the "Directors' Guidelines") adopted in light of corporate governance best practices. The Directors Guidelines are composed of a Directors' charter (the "Directors' Charter") detailing the rights and duties of the Members of the Board of Directors, an Audit Committee charter (the "Audit Committee Charter"), a Remuneration and Nomination Committee charter (the "Remuneration and Nomination Charter") and a Strategic Committee charter (the "Strategic Committee Charter"), with each such charter setting forth the respective committees' roles.

### Composition of the Board of Directors in 2011

Name	Age	Term started (as Member of the Board of Directors)	Term expires	Principal function	Status
Bodo Uebber	52	2007	2012	Chairman of EADS NV	Non-Executive
Louis Gallois	68	2000, re-elected in 2005 and 2007	2012	Chief Executive Officer of EADS NV	Executive
Rolf Bartke	64	2007	2012	Chairman of Recaro-Group	Nominated by Daimler
Dominique D'Hinnin	52	2007	2012	Co-Managing Partner of Lagardère SCA	Nominated by Sogeadade
Juan Manuel Eguagaray Ucelay	66	2005, re-elected in 2007	2012	Economic Advisor	Nominated by SEPI
Arnaud Lagardère	50	2003, re-elected in 2005 and 2007	2012	General and Managing Partner of Lagardère SCA	Nominated by Sogeadade
Hermann-Josef Lamberti	56	2007	2012	Member of the Management Board of Deutsche Bank AG	Independent
Lakshmi N. Mittal	61	2007	2012	Chairman and Chief Executive Officer of ArcelorMittal SA	Independent
Sir John Parker	69	2007	2012	Chairman of Anglo American PLC	Independent
Michel Pébereau	70	2007	2012	Honorific President of BNP Paribas SA	Independent
Wilfried Porth	53	2009	2012	Member of the Management Board of Daimler AG	Nominated by Daimler

Note: Status as of 1 March 2012. The professional address of all Members of the Board of Directors for any matter relating to EADS is Mendelweg 30, 2333 CS Leiden, The Netherlands.

More details of the curriculum vitae and other mandates of the individual Board of Directors Members can be found at the Company's website [www.eads.com](http://www.eads.com).

Within EADS, each Board of Directors Member must have the required mix of experience, qualifications, skills and industrial knowledge necessary to assist the Company in formulating and achieving its overall strategy, together with the specific expertise required to fulfil the duties assigned to him or her as Member of one of the Board of Directors' committees. The Board of Directors also believes that having a diverse composition among its Members with respect to gender, experience national origin, etc. is valuable for the quality and efficiency of its work.

### 4.1.2 Operation of the Board of Directors in 2011

#### Board of Directors meetings

The Board of Directors met 9 times during 2011 and was regularly informed of developments through business reports from the Chief Executive Officer, including rolling forecasts as well as strategic and operational plans. The average attendance rate at such meetings improved to 86%.

Throughout 2011, the Board of Directors monitored the progress of significant programmes, such as A350 XWB, A320neo, A400M, A380, Ariane 5, Paradigm, Eurofighter, Talarion,



and Saudi Border Security. It was kept regularly informed about the A350 XWB programme development progress and reviewed the status of the programme management improvement initiative throughout the Group.

Furthermore, the Board of Directors addressed EADS' strategy (including the competitive environment and M&A strategy) and in line with the objectives set forth in the Vision 2020 approved the acquisitions of Vector Aerospace, Satair and Vizada, which strengthened EADS' position internationally in general and in the services market segment in particular.

The Board also focused on possible consequences resulting from the European sovereign debt crisis, the Group's financial results and forecasts, asset management, compliance in key business processes, and efficiency and innovation initiatives. It reviewed Enterprise Risk Management ("ERM") results, export control regulations, investor relations and financial communication policy, and legal risks. Moreover, the Board discussed further actions for the improvement of EADS employee engagement.

Finally, the Board of Directors focused on governance issues and succession planning in order to facilitate a smooth Board and management transition in 2012. The recommendations for the appointments were prepared diligently by the Board, applying the succession process under the governance of EADS, which was updated in October 2007. The process aims at identifying the best possible candidates for the composition of the Board of Directors as well as the top Executive management positions. (For more information please refer to the relevant press release of 26 January 2012, available on the Company's website [www.eads.com](http://www.eads.com)).

## Board self-assessment 2011

The Board of Directors carries out a self-assessment of its performance annually and a more thorough assessment is conducted every three years by independent consultants (as in 2010).

The Corporate Secretary conducted the latest self-assessment in early 2012, based on one-to-one discussions with each Director; it explored the role of the Board of Directors, its operations, whether it fulfils its mission, how its composition is suited to EADS strategy, and the documentation and processes that influence its performance.

The Directors consider the frequency and length of meetings adequate to cover all issues; meetings for specific decisions outside regular Board meetings and the travel constraints make EADS Board membership demanding.

Supporting documentation has further improved and is well focused to support decision-making, while remaining quite detailed. Information provided at meetings is adequate for the complexity of the business; the time to debate during meetings is satisfactory, particularly because Directors come well prepared.

The Directors unanimously find that the Board has matured; its work as a team is efficient, allowing it to explore new domains and tackle relevant matters in the best interest of the Group,

very openly and professionally. Discussions are uninhibited and differing views are both encouraged and constructive. The Directors feel that the Board work allows them to fulfil their fiduciary duty. Moreover, the working relationship between the Board and the Members of the Executive Committee is smooth and efficient, due to the experience of mutual exchanges. Occasional meetings on industrial sites are considered beneficial and the practice will be continued.

Overall, the Board considers it assembles a very international, diverse and relevant set of skills, with a strong emphasis on finance competencies, and global strategic experience; in 2011, these skills were applied to discussing the A400M and A380 stabilisation, the A350 XWB technical and commercial de-risking, the A320neo launch, a major aircraft provision contract, large acquisitions, results of the overhaul of the executive remuneration system, upholding defence activities in times of downward pressure on defence and public spending, regional and segment strategy, and succession planning. Attention to compliance permeates the work of the Board.

Directors sense that the Board is less absorbed by pressing programme challenges and short-term issues at the expense of the longer term view. The majority of Board Members are satisfied that more time was devoted to long lead questions in 2011. For the third time, the Board devoted a full day meeting to strategy in 2011, including an assessment of specific country strategies, and the competitive landscape in certain industry segments.

Committees are very thorough and professional, and the articulation of the Audit Committee and of the Remuneration and Nomination Committee with the rest of the Board is satisfactory; committee meetings are often held on dates separate from the Board meeting. The result of most Committees' work is deemed helpful by the whole Board to prepare its decisions, as they focus more on special and technical issues, to avoid repetition of work. Ideas for the further improvement of the Strategic Committee work have been proposed to enhance its relevance to the Board.

Finally, the chairmanship of the Board and the Committees are recognised as very competent and dedicated.

Meeting attendance for the Board as a whole, and for the Remuneration and Nomination Committees has improved, and it is considered adequate to allow a constant and informed debate over matters. Individual attendance has improved substantially too.

Since the last self-assessment, in 2011, the discussions of financial strategy in the light of the European sovereign debt crisis, of succession planning, of organisational matters and of ways to protect the Company in case of core shareholder disinvestment are the most tangible improvements.

Continuous improvement, competitiveness and effectiveness of governance and management of the Group will remain a prime focus and key success factor of EADS.

### 4.1.3 Board Committees

#### Summary of memberships in 2011

Directors	Audit Committee	Remuneration & Nomination Committee	Strategic Committee
Bobo Uebber (Chairman)			Chairman
Louis Gallois (CEO)			X
Rolf Bartke	X		
Dominique D'Hinnin	X	X	
Juan Manuel Eguigaray Ucelay			
Arnaud Lagardère			X
Hermann-Josef Lamberti	Chairman	X	
Lakshmi N. Mittal			
Michel Pébereau			X
Sir John Parker	X	Chairman	
Wilfried Porth		X	X
Number of meetings in 2011	5	4	3
Average attendance rate in 2011	85%	94%	80%

#### The Audit Committee

Pursuant to the Rules, the Audit Committee makes recommendations to the Board of Directors on the approval of the annual financial statements and the interim (Q1, H1, Q3) accounts, as well as the appointment of external auditors and the determination of their remuneration. Moreover, the Audit Committee has the responsibility for ensuring that the internal and external audit activities are correctly directed and that audit matters are given due importance at meetings of the Board of Directors. Thus, it discusses with the auditors their audit programme and the results of the audit of the accounts and it monitors the adequacy of the Group's internal controls, accounting policies and financial reporting. It also oversees the operation of the Group's ERM system and the Compliance Organisation.

The rules and responsibilities of the Audit Committee have been set out in the Audit Committee Charter.

The Chairman of the Board of Directors and the Chief Executive Officer are permanent guests of the Committee. The Chief Financial Officer and the Head of Accounting are requested to attend meetings to present management proposals and to answer questions. Furthermore, the Head of Corporate Audit and the Chief Compliance Officer are requested to report to the Audit Committee on a regular basis.

The Audit Committee is required to meet at least four times a year. It met five times during 2011, with an 85% average attendance rate. In 2011 the Audit Committee performed all of the above listed activities.

#### The Remuneration and Nomination Committee

Pursuant to the Rules, the Remuneration and Nomination Committee makes recommendations to the Board of Directors regarding the appointment of Members of the Executive

Committee (upon proposal by the CEO and approval by the Chairman); the EADS Corporate Secretary; the Members of the Airbus Shareholder Committee; and the chairmen of the Supervisory Board (or similar organ) of other important Group Member companies and Business Units. The Remuneration and Nomination Committee also makes recommendations to the Board of Directors regarding remuneration strategies and long-term remuneration plans and decides on the service contracts and other contractual matters in relation to the Board of Directors and Executive Committee Members. The rules and responsibilities of the Remuneration and Nomination Committee have been set out in the Remuneration and Nomination Committee Charter.

The guiding principle governing management appointments in the Group is that the best candidate should be appointed to the position ("best person for the job"), while at the same time seeking to achieve a balanced composition with respect to gender, experience, national origin, etc. The implementation of these principles should, however not create any restrictions on the diversity within the EADS executive management team.

The Chairman of the Board of Directors and the Chief Executive Officer are permanent guests of the Committee. The Head of EADS Human Resources is requested to attend meetings of the Remuneration and Nomination Committee to present management proposals and to answer questions.

The Remuneration and Nomination Committee is required to meet at least twice a year. It met four times during 2011, with a 94% average attendance rate.

In addition to making recommendations to the Board of Directors for major appointments within the Group, the Remuneration and Nomination Committee reviewed top talents and succession planning, discussed measures to improve engagement and to promote diversity, reviewed the



remuneration of the Executive Committee Members for 2011, the long-term incentive plan, and the variable pay for 2010. Based on the outcome of the Free Share plan, it also proposed the terms of the 2012 ESOP plan.

### The Strategic Committee

The Strategic Committee is not a decision making body but a resource available to the Board of Directors for the preparation of decisions on strategic matters. Pursuant to the Rules, the Strategic Committee makes recommendations to the Board of Directors regarding strategic developments, corporate strategies, major merger and acquisition projects, major investments or divestments, projects or product decisions, as well as major research and development projects. The rules and responsibilities of the Strategic Committee have been set out in the Strategic Committee Charter.

The Strategic Committee is required to meet at least twice a year. The Chief Executive Officer is a Member and the Chief of the EADS Marketing and Sales Organisation is a permanent guest of the Strategic Committee, in order to present management proposals and to answer questions. The Committee met three times during 2011, with an 80% average attendance rate.

In addition to monitoring major strategic and divisional initiatives, acquisition targets and divestment candidates, and progress on the top priorities of the Group for the year, it made recommendations to the Board of Directors linked to the competitive landscape and home countries industrial policy,

company perception in key markets, the continuous constraints on defence budgets, and conducted a review of several country strategies.

### 4.1.4 Conflict of interest and Insider Trading Rules

#### Conflicts of interest

EADS has a conflict of interest policy which sets out that any potential or actual conflicts of interest between EADS and any Member of the Board of Directors shall be disclosed and avoided (please refer to the Directors' Charter and to the Code of Ethics both available on the Company's website [www.eads.com](http://www.eads.com)).

#### Insider Trading Rules

The Board of Directors has also adopted specific Insider Trading Rules ("ITR"), which restrict its Members from trading in EADS shares in certain circumstances. Pursuant to the ITR, (i) all employees and directors are prohibited from conducting transactions in EADS shares or stock options if they have inside information, and (ii) certain persons are only allowed to trade in EADS shares or stock options within very limited periods and have specific information obligations to the ITR Compliance Officer of the Company and the competent financial market authorities with respect to certain transactions. The updated version of the ITR effective from 1 January 2007 is available on the Company's website [www.eads.com](http://www.eads.com).

## 4.2 Dutch Corporate Governance Code

In accordance with Dutch law and with the provisions of the Dutch Corporate Governance Code as amended at the end of 2008 (the "Dutch Code"), which includes a number of non-mandatory recommendations, the Company either applies the provisions of the Dutch Code or, if applicable, explains and gives sound reasons for their non-application. While EADS, in its continuous efforts to adhere to the highest standards, applies most of the current recommendations of the Dutch Code, it must, in accordance with the "apply or explain" principle, provide the explanations below.

For the full text of the Dutch Code, please refer to [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl).

For the financial year 2011, EADS states the following:

- EADS is a controlled Company and, therefore, a number of the Members of the Board of Directors, Audit Committee, Remuneration and Nomination Committee and Strategic Committee are designated and can be removed by its controlling shareholders.**

Nevertheless it should be noted that a self-assessment of the Board of Directors confirmed that the Members of the Board of Directors designated by the controlling shareholders hold opinions and defend positions that are in all relevant aspects

aligned with the economic interests of individual shareholders. Given the absence of material conflicting business interests between EADS and its controlling shareholders, and the independence of the controlling shareholders from one another, the Members of the Board of Directors designated by the controlling shareholders are deemed to fairly represent the interest of all shareholders in acting critically and independently of one another and of any particular interests. Furthermore, both the Board of Directors' composition (with a wide range of different experiences represented) as well as the running of meetings are conducive to the expression of autonomous and complementary views.

Accordingly:

- four Members of the Board of Directors out of eleven are independent (whereas Provision III.2.1 of the Dutch Code recommends that there be no more than one non-independent Board of Directors Member);
- Members of the Board of Directors retire simultaneously on a five-yearly basis (whereas Provision III.3.6 of the Dutch Code recommends that there be a retirement schedule to avoid, as far as possible, a situation in which many Non-Executive Members of the Board of Directors retire at the same time);

- ◎ the Board of Directors is headed by the Chairman of the Board of Directors. In case of dismissal or resignation of the Chairman, the Board of Directors shall immediately designate a new Chairman. There is therefore no need for a Vice-Chairman to deal with the situation when vacancies occur (whereas Provision III.4.1(f) of the Dutch Code recommends that there is a Vice-Chairman);
- ◎ EADS' Audit Committee does not meet without the Chief Executive Officer being present (whereas Provision III.5.9 of the Dutch Code recommend this);
- ◎ EADS' Audit Committee includes two Members of the Board of Directors designated by the controlling shareholders (whereas Provision III.5.1 of the Dutch Code recommends that there be no more than one non-independent Audit Committee Member);
- ◎ EADS' Remuneration and Nomination Committee includes two Members of the Board of Directors designated by the controlling shareholders (whereas Provision III.5.1 of the Dutch Code recommends that there be no more than one non-independent Committee Member);
- ◎ EADS' Remuneration and Nomination Committee is not the relevant body responsible for the selection procedure and nomination proposals for Members of the Board of Directors (whereas Provision III.5.14 (a) of the Dutch Code recommends that such Committee shall focus on drawing up selection criteria and the appointment procedures for Members of the Board of Directors; and Provision III.5.14 (d) recommends that such Committee shall focus on making proposals for appointments and reappointments).

## 2. As for remuneration of Member of the Board of Directors

EADS applies different rules for the remuneration of Executive (the Chief Executive Officer) and Non-Executive Members of the Board of Directors, as explained in 4.3.1 "EADS' Remuneration Policy" and 4.3.2 "Remuneration of the Members of the Board".

In case of dismissal from the Company of the Chief Executive Officer, a termination indemnity equal to one and a half times the annual total target salary would be paid subject to the following conditions (whereas Provision II.2.8 of the Dutch Code recommends that the maximum remuneration in the event of dismissal be one year's salary, and that if the maximum of

one year's salary would be manifestly unreasonable for an Executive Board Member who is dismissed during his first term of office, such Board Member be eligible for severance pay not exceeding twice the annual salary): the Board of Directors has concluded that the Chief Executive Officer can no longer fulfil his position as a result of change of EADS' strategy or policies or as a result of a change in control of EADS. The termination indemnity would be paid only provided that the performance conditions assessed by the Board of Directors had been fulfilled by the Chief Executive Officer.

However this termination indemnity is no longer applicable, since the Chief Executive Officer has reached the age of 65 and is able to retire immediately.

### 3. EADS is listed on the Frankfurt, Paris and Spanish stock exchanges and endeavours to strictly comply with the relevant regulations and takes into account the general principles on these markets protecting all its stakeholders.

- ◎ Moreover, EADS has adopted Insider Trading Rules providing for specific internal rules, inter alia, governing Members' of the Board of Directors holding and trading of shares in EADS and other companies. Therefore, in line with these rules and these regulations and common practices in the jurisdictions in which the Company is listed;
- ◎ EADS does not require Members of the Board of Directors to hold their securities in the Company as a long-term investment (whereas Provision III.7.2 of the Dutch Code recommends such a treatment);
- ◎ the term of the office of Members of the Board of Directors is five years without limitation on renewal (whereas Provisions II.1.1 and III.3.5 of the Dutch Code recommend that there be no more than three four-year terms for Non-Executive Members of the Board of Directors and that there be four-year terms (without limitation on renewal) for Executive Members of the Board of Directors);
- ◎ EADS does not follow various recommendations for dealings with analysts, including allowing shareholders to follow meetings with analysts in real time and publishing presentations to analysts on the website as set out in Provision IV.3.1 of the Dutch Code.

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For information on the operation of the shareholders' meeting and its key powers and on shareholders' rights and how they can be exercised, please refer to Section 3.1 (Shareholding and voting rights – right to attend meetings).

For information on the composition and operation of the Board of Directors and its respective committees, please refer to Section 4.1.1 "Composition, power and rules, Section 4.1.2 "Operation of the Board of Directors in 2011", Section 4.1.3 "Board Committees".

For information on (i) significant direct and indirect shareholdings, (ii) holders of shares with special control rights, (iii) rules governing appointment and dismissal of Directors, (iv) amendments to the Articles of Association, and (v) the delegation to the Board of Directors of the power to issue or buy back shares, please refer to Section 3.1 "Shareholding and voting rights – Shareholding structure and development in 2011", Section 3.2 "Relationships with principal shareholders", Section 4.1.1 "Composition, powers and rules", Section 3.1 "Shareholding and voting rights – Amendments to the Articles of Association" and Section 3.1 "Shareholding and voting rights – Modifications of Share Capital or Rights attached to Shares".



## 4.3 Remuneration Report

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### 4.3.1 EADS' Remuneration policy

#### 4.3.1.1 General principles

##### Strategy

EADS' remuneration strategy is to provide remuneration that:

- ◎ attracts, retains and motivates qualified executives;
- ◎ is aligned with shareholders' interest;
- ◎ is performance-related to a significant extent;
- ◎ is fair and transparent;
- ◎ is competitive against the comparable market; and
- ◎ can be applied consistently throughout the Group.

##### Benchmark

The remuneration policy is benchmarked regularly against the practice of other global companies, using peer group data and general industry data of consulting firms. The benchmark data is a weighted average of French, German and UK information, in the home countries of EADS. In countries outside EADS' home region (such as the US), EADS benchmarks against national peer group data of the industry. The total target remuneration for executives is targeted at the median level compared to the benchmark data.

##### Assessment of the appropriateness of Board of Directors and Executive Committee remuneration

In March 2010, an assessment performed by an independent expert confirmed that EADS' Board of Directors and Executive Committee remuneration, terms and conditions were in line with the relevant European benchmarks and that EADS was compliant with the specific requirements and regulations set forth in the relevant corporate governance frameworks. This assessment was confirmed in October 2011. In order to ensure future compliance another comparable assessment will be performed, if the regulatory rules change.

##### Regular review

The Remuneration and Nomination Committee is charged with reviewing and making recommendations to the Board on remuneration policy and issues, with the Board of Directors making the final decision. Pursuant to its charter,

the Remuneration and Nomination Committee must ensure that the rules for determining the variable portion of executives' remuneration are consistent with EADS' annual performance and the long-term strategy, and that this variable portion is linked to previously-determined, measurable targets which must be achieved both in the short-term and the long-term.

Each year, the Remuneration and Nomination Committee reviews the achievements of the performance conditions of the variable remuneration and how they may affect the

remuneration of executives. Following analysis of different scenarios, the Board then determines the level at which performance conditions have been met. The Board based on the recommendation by the Remuneration and Nomination Committee can adjust the payout of the annual variable remuneration and the LTIP grants upwards or downwards if the predetermined performance criteria would produce an unfair result in extraordinary circumstances.

In making its final decision on the remuneration policy, the Board seeks to promote EADS' interests in the medium and long-term while discouraging executives from acting in their own interests or taking risks that are not in keeping with the adopted strategy.

##### Performance management

The remuneration structure has changed in 2011 to reflect the importance of performance management in EADS. Consequently, EADS focusses on the suitable implementation of the respective performance management rules.

##### (i) Setting of collective financial targets

The process for setting collective financial targets is reinforced to be a more proactive and interactive core process between the Board of Directors and the Executive Committee. It aims at achieving both the long-term strategic goals set forth under Vision 2020 and the short-term objectives based on the annual Operative Planning.

The process takes place in two consecutive steps: Around mid-year, the Board, in discussion with management, sets the 'ambitious target' for the collective financial Key Performance Indicators ("KPI"), taking into account market benchmarks of peers and other relevant industries. This target ambition represents the 150% achievement level of the variable remuneration and the LTIP. At year-end, the target setting for the year(s) to come is finalised together with the Operative Planning.

The collective financial targets are themselves subject to different metrics. Annual variable remuneration is determined based on achievement of collective targets for EBIT\* and Cash on Group and Divisional level. LTIP awards are based on achievement of the 3-years absolute average earnings per share ("EPS" = Net Income divided by number of ordinary shares) of the Group.

EPS as KPI for LTIP is well recognised throughout the market and used by numerous peer companies. The three years average EPS is intended to focus more on the long-term performance particularly from an investor's perspective, thereby strengthening the relationship between remuneration and sustainable EADS wide operational performance.

### (ii) Setting of individual targets

The individual targets used for the determination of the annual variable remuneration are focused on cross-organisational collaboration and on compliance. Consequently, the expected management behaviours are defined by the EADS Leadership Competencies, which are based on Company values and on lessons learned from the "EADS Engagement Survey".

The weight of the behavioural targets increases to up to 40% of the individual portion of the annual variable remuneration. Additionally, the weight of the classical operational targets are based on classical SMART (specific – measurable – achievable – realistic – clear timeline) objectives set at

an individual, team or functional (up to Divisional) level. These operational targets amount to a minimum of 60% of the overall individual targets.

### (iii) Performance spread

The performance spread (achievement level) of the annual variable remuneration is 0 - 200%. This is designed to enable the Company to better recognise outstanding achievements of the businesses and of the individuals than in the past. The relative performance of Executives throughout the EADS organisation is accompanied by a distribution policy in order to ensure a fair evaluation and to prevent unreasonable payments.

## 4.3.1.2 Detailed remuneration policy

### Non-Executive Members of the Board of Directors

Each Non-Executive Member of the Board of Directors receives an annual fixed fee of €80,000, as well as a fee for participation in Board meetings of €5,000 per meeting attended. The Chairman of the Board receives an annual fixed fee of €180,000 for carrying out this role, as well as a fee for participation in Board meetings of €10,000 per meeting attended.

The Chairmen of each of the Board Committees receive an additional annual fixed fee of €30,000. The Members of each of the Board Committees receive an additional annual fixed fee of €20,000 for each Committee membership. Committee chairmanship and committee membership annual fees are cumulative if the concerned Non-Executive Members of the Board belong to two different Committees.

Non-Executive Members of the Board of Directors are not entitled to variable remuneration or grants under EADS' LTIPs.

### Chief Executive Officer

The Chief Executive Officer, the sole Executive Member of the Board of Directors, does not receive fees for participation in Board meetings or any dedicated compensation as Member of the Board. Rather, the remuneration policy for the Chief Executive Officer for 2011 (as well as the other Members of the Executive Committee) is designed to balance short-term operational performance with the mid- and long-term objectives of the Company and consists of the following main elements:

Remuneration Element	Main drivers	Performance measures	% of total target remuneration/% of vesting
Base salary	Reward market value of job/position	Not applicable	<ul style="list-style-type: none"> <li>• EADS CEO: 45% of total target remuneration</li> <li>• Other Members of the Executive Committee: 50% of total target remuneration</li> </ul>
Annual variable remuneration	Reward annual performance based on achievement of Company performance measures and individual/team objectives, including financial and non-financial targets and behaviours	Collective part (50% of target variable remuneration): EBIT* (50%), Cash (50%)	<ul style="list-style-type: none"> <li>• EADS CEO: 55% of total target remuneration (range from 0% to 200%)</li> <li>• Other Members of the Executive Committee: 50% of total target remuneration (range from 0% to 200%)</li> </ul>
		Individual part (50% of target variable remuneration): achievement of annual individual objectives	
Long term incentive plan	Reward long-term Company performance and engagement on financial targets	The number of performance units which will vest is based on 3 year absolute average earnings per share at EADS level	Vested performance units will range from 50% to 150% of initial grant <sup>(1)</sup>

(1) In case of absolute negative results during the performance period, the Board of Directors can decide to review the vesting of the performance units including the 50% portion which is not subject to performance conditions (additional vesting condition).



The individual performance targets of the Chief Executive Officer for 2011 were the “EADS Group Priorities for 2011”. (see Section 2 of this document.). The Board of Directors determined that the performance of the CEO towards these priorities has been generally excellent, impacting the Individual Part of the Annual Variable Remuneration (see description above). In that respect the Board emphasised the determining influence of the CEO on the transition of EADS culture, including through his commitment to risk management and compliance. The Collective Part of the Annual Variable Remuneration 2011 for the Chief Executive Officer was based on the EADS Group financial targets for EBIT\* of € 1.1 billion. (i.e. corresponding to € 1.3 billion. before one-off's at on-target level), and Cash. These targets have been established in the financial target setting process (see Section 4.3.1.1. of this document) and have also been overachieved.

Furthermore, the Chief Executive Officer (as well as the other Members of the Executive Committee) is entitled to pension and other benefits as described below.

#### **Annual variable remuneration**

Each year, variable remuneration in cash can be earned based on the achievement of specific and challenging targets, and is calculated on the basis of two equal components:

- ◎ Collective Financial Targets (representing 50% of the annual variable remuneration) to reward company performance at Group level or Division level (if applicable). EBIT\* and Cash are the financial indicators chosen to measure company performance in 2011 (EBIT\* weighted at 50%, Cash weighted at 50%); and
- ◎ Individual Targets (representing 50% of the annual variable remuneration) to reward individual performance measured against the achievements of individual/team objectives, which also comprise non-financial indicators that are relevant to the Company's long-term value creation and behavioural objectives.

Based on the level of performance, the collective as well as the individual achievement can vary from 0% to 200% of the target variable remuneration. On target achievement at 100% for both individual and collective financial targets would indicate meeting personal and company performance targets.

#### **Long-term Incentive Plans (“LTIP”)**

The EADS LTIP consists of performance units and restricted units, and is a general tool for talent retention and promotion of long-term value creation.

Performance units are rights to receive a payment in cash based on the value of the EADS share on the respective vesting dates. They are granted to Group executives based on their hierarchical level. Vesting of these units is conditional upon mid-term business performance. The average vesting period is 4 years and 3 months.

Restricted units are also rights to receive a payment in cash based on the value of the EADS share on the respective vesting dates. They are granted to selected individuals to reward personal performance and potential. Vesting of these units is subject to continued employment of the relevant individual in the Group.

Should the performance criteria be met and/or provided that the executive is still employed by the Company or any of its Group companies, the vesting of the performance and restricted units entitles the executives/selected individuals to four payments in cash between 3.5 and 5 years (average 4 years and 3 months); each payment representing 25% of the vested units.

A minimum of 50% of performance units will vest; 100% in case of on-target performance achievement; up to a maximum of 150% in case of overachievement of performance criteria. Until and including LTIP 2009, the performance criteria has been the cumulative EADS Group EBIT\* of 2 upfront defined consecutive years measured against the targets set in the respective Operative Planning (OP). Since LTIP 2010, the performance criteria changed to “3 years absolute average Earnings per share” of the EADS Group based on a specific target setting by the EADS Board of Directors.

In case of absolute negative results (cumulative EBIT\* of EADS Group) during the performance period, the Board can decide to review the vesting of the performance units including the 50% portion which is not subject to performance conditions (additional vesting condition).

In addition, and in order to strengthen the alignment of EADS top management with long-term growth objectives, the Board has approved mandatory share ownership rules. Executive Committee Members must purchase and hold EADS shares equal to a minimum of 20% of the number of vested units. They will have to hold this number of EADS shares until the end of their mandate as an Executive Committee Member.

In November 2011, the Board approved the granting of 2,588,950 performance units on target and 877,750 restricted units to 1,771 EADS executives and selected non-executives.

The proposed 2012 LTIP would be a performance and restricted unit plan, with the same general principles as described above. The plan would offer the granting of about 4,000,000 (or more) performance and restricted units on target. This number of allocations will be strongly dependent on the number of beneficiaries and on the evolution of the share price used as calculation basis at grant date (face value methodology). The value of each unit would be based on an average price of the EADS share at the respective dates of vesting. The grant value of the performance units granted to the Chief Executive Officer will not represent more than 50% of his total target remuneration.

EADS has taken into account the market trend, which is moving from stock options or other equity plans to cash unit plans. The size of the annual EADS LTIP grant will be adjusted to reflect the face value policy decided by the Board of Directors for the different EADS executive categories at target level.

### 4.3.2 Remuneration of the Members of the Board

The amounts of the various components constituting the remuneration granted to the Chief Executive Officer and to Non-Executive Directors during 2011, together with additional information such as the number of performance units and details of the pension benefits entitlements of the Chief Executive Officer, are set out in "Notes to the Company Financial Statements – Note 11: Remuneration".

They are summarised below as well:

#### Total remuneration and related compensation costs

The total remuneration and related compensation costs of the Members of the Board of Directors and former Directors related to 2011 and 2010 can be summarised as follows:

Non-Executive Members of the Board of Directors (In €)	2011	2010
Fixed fees <sup>(1)</sup>	1,170,000	1,170,000
Fees for participation in meetings	425,000	520,000

(1) The Fixed Fees related to 2010 were paid in 2011; the fixed fees related to 2011 will be paid in 2012.

Executive Members of the Board of Directors (In €)	2011	2010
Base Salary	990,000	900,000
Annual Variable Pay (related to reporting period including part paid by EADS NV)	1,993,475	1,732,500

The cash remuneration of the Non-Executive Members of the Board of Directors related to 2011 was as follows:

2011 (In €)	Fixed Fees <sup>(1)</sup>	Fees for participation in meetings	Total
<b>Directors</b>			
Bodo Uebber	210,000	90,000	300,000
Rolf Bartke	100,000	45,000	145,000
Dominique D'Hinnin	120,000	45,000	165,000
Juan Manuel Eguagaray Ucelay	80,000	40,000	120,000
Arnaud Lagardère	100,000	30,000	130,000
Hermann-Josef Lamberti	130,000	35,000	165,000
Lakshmi N. Mittal <sup>(2)</sup>	80,000	30,000	110,000
Sir John Parker	130,000	35,000	165,000
Michel Pébereau	100,000	35,000	135,000
Wilfried Porth	120,000	40,000	160,000
<b>Total</b>	<b>1,170,000</b>	<b>425,000</b>	<b>1,595,000</b>

(1) The fixum will be paid in 2012.

(2) Excluding the fees related to 2010 paid in 2011.

The cash remuneration of the Executive Member of the Board of Directors related to 2011 was as follows:

2011 (In €)	Base Salary	Annual Variable Pay related to 2011
<b>Directors</b>		
Louis Gallois	990,000	1,993,475



## Long-term incentives

The table below gives an overview of the performance units granted to the Chief Executive Officer in 2011 pursuant to the LTIP:

	Unit plan: number of performance units <sup>(1)</sup>	
	Granted in 2011	Vesting dates
Louis Gallois	51,400	Vesting schedule is made up of 4 payments over 2 years: (i) 25% expected in May 2015; (ii) 25% expected in November 2015; (iii) 25% expected in May 2016; (iv) 25% expected in November 2016.

(1) Vesting of all performance units granted to the Chief Executive Officer is subject to performance conditions.

## Pension benefits

The twelve Members of the Executive Committee have pension promises as part of their employment agreements. The general policy is to give them annual pensions of 50% of their annual base salary upon reaching 5 years of service in the Executive Committee of EADS, payable once they reach retirement age.

These rights can gradually increase to 60% after a second term, usually after ten years of service in the EADS Executive Committee. However, in order to reach this 60% replacement ratio the respective Member of the Executive Committee must also have 12 years of seniority within the Group.

These pension schemes have been implemented through collective executive pension plans in France and Germany. These pension promises have also separate rules e.g. for minimum length of service and other conditions to comply with national regulations.

For the Chief Executive Officer, the amount of the pension defined benefit obligation (i.e. the book cash value) amounted to €2.9 million as of 31 December 2011, while the amount of current service and interest cost related to his pension promise accounted for the fiscal year 2011 represented an expense of €0.6 million. This obligation has been accrued in the Consolidated Financial Statements.

Non-Executive Members of the Board do not receive pension benefits.

## Termination indemnity

As part of his mandate contract, the Chief Executive Officer is entitled to a termination indemnity when the departure results from a decision by the Company in case of change in control or change in the Company's strategy. Payment of the termination indemnity is also subject to performance conditions as fixed and assessed by the Board of Directors. The termination indemnity, if applicable, would amount to a maximum of 18 months of annual total target remuneration.

However, this termination indemnity rule is not applicable, since the Chief Executive Officer has reached the age of 65 and is able to retire immediately.

Non-Executive Members of the Board of Directors do not have a termination indemnity.

## Non-competition clause

A non-competition clause is included in the terms of the Chief Executive Officer's mandate, applicable for one-year starting

at the end of the mandate contract, and renewable for another year at the Company's initiative. The clause envisages a compensation equal to 50% of the last target annual salary, defined as the base salary plus the last paid annual variable remuneration.

The application of the clause is subject to a Board of Directors decision.

The Chief Executive Officer has proactively renounced the benefit of such compensation, while remaining tied by the non-compete clause; the Board of Directors has agreed to this request.

## Other benefits

The Chief Executive Officer is entitled to a company car. The value of his company car as at 31 December 2011 is €24,120 (excluding VAT).

### 4.3.3 Remuneration of the Members of the Executive Committee

The Members of the Executive Committee, including the Chief Executive Officer, are entitled to receive for the year 2011 total remuneration on a full year basis of €18,786,097. This remuneration is divided for the EADS Chief Executive Officer into a 45% fixed part and a 55% variable part on target and for the other Members of the Executive Committee into a 50% fixed part and a 50% variable part on target.

The total remuneration paid by EADS and all its Group companies to Louis Gallois, Chief Executive Officer, during the year 2011, was €2,722,500 (this sum includes the payments of his January to December 2011 base salary of €990,000 and the variable pay for 2010 of €1,732,500).

The Members of the Executive Committee including the Chief Executive Officer receive the majority of their remuneration from their relevant national Group entity (under the terms of their employment or mandate contract) and the remaining part from EADS N.V. ("NV compensation", under the terms of the N.V. letter of agreement).

### 4.3.4 Employee Share Ownership Plan

EADS supports employee share ownership. Since its creation, EADS has regularly offered qualifying employees the opportunity to purchase EADS shares on favourable terms through employee share ownership plans ("ESOP").

In June 2011, EADS has invited employees of the Group to subscribe for EADS shares matched with free shares based on a defined ratio. This ratio varied depending on the number of shares acquired at fair market value by the employees, with a maximum discount of 50% for 10 shares acquired and a minimum of 21% discount for 400 shares acquired. The maximum number of shares an employee could acquire was fixed by the Board of Directors at 400 leading to 507 shares received by the employee. The discount percentage calculation refers to the share price reduction considering the number of shares acquired versus the initial investment.

In France, employees could subscribe their shares through a mutual Fund ("FCPE") forming part of the Group Savings plan.

Non-Executive Members of the Board were not eligible for free shares.

### Future ESOP

The Company intends to implement an ESOP in 2012, subject to approval by the Board of Directors. The 2012 ESOP is expected to be a share matching plan whereby the Company would match a certain number of directly acquired shares with a grant of free shares. The total offering would be up to approximately 3.2 million shares of the Company, i.e. up to 0.39% of its issued

share capital, open to all qualifying employees (including the Chief Executive Officer). Under the umbrella of ESOP 2012, a dedicated UK tax saving plan (Share Incentive Plan – SIP) has been deployed in December 2011 subject to the decision of the Board of Directors in May 2012.

Non-Executive Members of the Board are not eligible to participate in Future ESOP.

### 4.3.5 Miscellaneous

#### Policy for loans and guarantees granted

EADS' general policy is not to grant any loan to the Members of the Board of Directors. Unless the law provides otherwise, the Members of the Board of Directors shall be reimbursed by the Company for various costs and expenses, like reasonable costs of defending claims. Under certain circumstances, such as an act or failure to act by a Member of the Board of Directors that can be characterised as intentional, intentionally reckless, or seriously culpable, there will be no entitlement to this reimbursement. The company has also taken out liability insurance ("D&O" – Directors & Officers) for the persons concerned.

## 4.4 Ethics and Compliance Programme

The EADS Group Chief Compliance Officer ("CCO") is in charge of the design and implementation of the EADS Ethics and Compliance Programme, which supports the Group's commitment to adhering to the highest ethical and compliance standards in order to sustain the Group's global competitiveness.

The EADS Ethics and Compliance Programme seeks to ensure that Group business practices conform to applicable laws and regulations as well as to ethical business principles endorsed by the Group. It also seeks to promote a culture of integrity and transparency. A key programme element consists of the Group Ethics Code, "Integrity & Transparency" (updated in 2010 and available on the Company's website [www.eads.com](http://www.eads.com)), which seeks to guide the daily behaviour of all EADS employees.

A compliance organisation and resource network has been implemented throughout the Group, in a structure that balances proximity to day-to-day business activities with the necessary independence. Accordingly, Compliance Officers throughout the Group report both to management as well as to the compliance organisation. This is reflected at the very top of the hierarchy, with the EADS Group CCO reporting both to the Chief Executive Officer and the Audit Committee, which oversees the functioning of the Group-wide compliance organisation as a whole.

Compliance Officers appointed in each of EADS' four Divisions as well as various Business Units are in charge of supporting employees to conduct business ethically and in accordance with the EADS Ethics and Compliance Programme. Chief

Compliance Officers at the Divisions and Business Units must ensure that they have sufficient local resources to carry out their roles effectively, and report both to the EADS Group CCO and to the head of the relevant Division or Business Unit.

At Group level, permanent Compliance Officers are appointed to departments where the main compliance risks exist, and are empowered to issue compliance directives applicable throughout the Group. For example, the Group International Compliance Officer is in charge of developing and implementing EADS' Business Ethics Policy and Rules to prevent corruption. The Group Export Compliance Officer seeks to ensure that the activities of the Group comply with all relevant export control rules and with the internal "sensitive countries" policy, while the Group Procurement Compliance Officer supervises compliance in the supply chain. Since 2010, a fourth departmental Compliance Officer has been in charge of more effectively addressing data privacy compliance risks in the Group.

In order to achieve the objectives set by the Chief Executive Officer and discussed with the Audit Committee, the EADS Group CCO has established compliance "roadmap" based on international standards. The roadmap provides an overview of compliance activities such as:

- ◎ a periodic assessment and reporting of the main compliance risks as part of the EADS ERM (Enterprise Risk Management) system;
- ◎ the monitoring of Ethics and Compliance policies;



- ◎ transparent reporting to the Audit Committee and discussions with the Executive Committee;
- ◎ communication and training activities across the Group; and
- ◎ the functioning of the new alert system implemented in 2010, the “OpenLine”, through which employees may raise ethical and compliance concerns in strict confidentiality and without fear of retaliation. Due to current regulatory requirements, alerts posted on the OpenLine may only be treated if they deal with accounting, financial, corruption, or anti-competitive practices (since 2011) issues. The use of the OpenLine is limited to employees of all companies controlled by the Group and located in France, Germany, Spain and the UK. Taking into account EADS’ overall compliance strategy, EADS will monitor the OpenLine system and will assess

the possibility of extending its use to all employees and broadening its scope to issues of a general and operational nature.

In 2011, programme progress reports were presented four times to the Board of Directors and the Audit Committee.

In the future, EADS will continue to lead efforts to establish consistent global standards for compliance in the aerospace and defence industry, in particular business ethics. Today, the European Common Industry standards and the International Forum on Business Ethical Conduct are both among the most innovative sector-wide business ethics initiatives.

As such industry standards become more consistent globally with a more level playing field for all, EADS will seek to turn its commitment to ethics and integrity into a sustainable competitive advantage.

## 4.5 Enterprise Risk Management System

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Risk and opportunity management is of paramount importance to EADS, given the complex and volatile business environment in which EADS operates. A comprehensive set of risk and opportunity management procedures and activities across EADS makes up the EADS Enterprise Risk Management (“ERM”) system.

The objective of the ERM system is to create and preserve value for EADS’ stakeholders. It is designed and operated to effectively identify potential events that may affect EADS, manage risk to be within the defined risk tolerance, identify and manage opportunities, and provide reasonable assurance regarding the achievement of targets. To achieve this, EADS seeks to have one integrated, consistent, comprehensive, efficient and transparent ERM system, using the same understanding, practice and language. It seeks to embed the risk management philosophy into EADS culture, in order to make risk and opportunity management a regular and everyday process for employees.

The Board of Directors and EADS top management regard ERM as a key management process to steer the Company and enable management to effectively deal with risks and opportunities. The advanced ERM capabilities and organisation that EADS is seeking to progressively implement can provide a competitive advantage to the extent they successfully achieve the following:

- ◎ Strategy: the selection of high level strategic objectives, supporting the EADS vision and consistent with risk appetite;
- ◎ Operations: the effectiveness and efficiency of operations and resource allocation; the delivery of products on time and in accordance with cost and quality objectives; the capability to achieve performance and financial targets; the implementation of risk-enabled decisions and managerial processes;

- ◎ Reporting: reliability of reporting, in particular financial reporting; and
- ◎ Compliance: compliance with applicable laws and regulations.

### ERM process

The objectives, principles and process for the ERM system as endorsed by the Board of Directors are set forth in the EADS ERM Policy and communicated throughout the Group. The EADS ERM Policy is supplemented by various manuals, guidelines, handbooks, etc. The ERM system is based on the Internal Control and Enterprise Risk Management Framework of the Committee of Sponsoring Organisations of the Treadway Commission (COSO II). External standards that contribute to the EADS ERM system include the Internal Control and ERM frameworks of COSO, as well as industry-specific standards as defined by the International Standards Organisation (ISO).

The ERM system comprises an integrated hierarchical bottom-up and top-down process to enable better management and transparency of risks and opportunities. At the top, the Board of Directors and the Audit Committee discuss major risks and opportunities, related risk responses and opportunity capture as well as the status of the ERM system, including significant changes and planned improvements. This is based on systematic bottom-up information including management judgement. The results are then fed back into the organisation. The design of the ERM system seeks to ensure compliance with applicable laws and regulations with respect to Internal Control (“IC”) and Risk Management (“RM”), addressing both subjects in parallel. The ERM process consists of four elements: **the operational process**, which consists of a sequence of 8 consistent, standardised components to enhance operational risk and opportunity management; **the reporting process**, which contains procedures for the status reporting of the ERM system and the risk/opportunity situation; **the compliance**

**process**, which comprises procedures to substantiate the assessment of the effectiveness of the ERM system; and **the support process**, which includes procedures to increase the quality and provide further substantiation of the quality of the ERM system.

The ERM process applies to all possible sources of risks and opportunities, with both internal and external sources, quantifiable and unquantifiable, potentially affecting EADS in the short-, middle- and long-term. It also applies to all of EADS' businesses, activities and departments. Management at each level discusses ERM when they run the business, as part of their decision making and related activities. Accordingly, the ERM process is part of the management process and interrelated with other processes. The details of application of the ERM process vary with the risk appetite of management and the size, structure and nature of the organisational unit, programme/project, department or process. Nonetheless, the fundamental principles of the EADS ERM Policy generally apply.

For a discussion of the main risks to which the Group is exposed, see “— 4.6. Risk Factors”.

### ERM governance and responsibility

The governance structure and related responsibilities for the ERM system are as follows:

- ◎ the Board of Directors supervises the design and effectiveness of the ERM system including management actions to mitigate the risks inherent in EADS' business activities. It discusses the major risks at least quarterly based on ERM reporting or as required depending on development of business risks. It is supported by the Audit Committee which discussed at least yearly the activities with respect to the operation, design and effectiveness of the ERM system, as well as any significant change and planned improvement prior to presentation to the full Board of Directors;
- ◎ the EADS Chief Executive Officer, backed by the Executive Committee, is responsible for an effective ERM system, the related internal environment (i.e. values, culture) and risk philosophy. He is supported by the EADS Chief Financial Officer who supervises the EADS Chief Risk Officer and the ERM system design and process implementation;
- ◎ the EADS Chief Risk Officer has primary responsibility for ERM strategy, priorities, system design, culture development and reporting tool. He supervises the operation of the ERM system, is backed by a dedicated risk management

organisation on Group and Division level, which actively seeks to reduce overall risk criticality. This risk management organisation is networked with the risk owners on the different organisational levels and pushes for a proactive risk management culture; as well as

- ◎ the Executive Management of the EADS Divisions, Business Units and Headquarters' departments assume responsibility for the operation and monitoring of the ERM system in their respective area of responsibility. They seek to ensure transparency and effectiveness of the ERM system and adherence to its objectives. They take responsibility for the implementation of appropriate response activities to reduce probability and impact of risk exposures, and conversely for the implementation of appropriate responses to increase probability and impact of opportunities.

### ERM effectiveness

The EADS ERM system needs to be effective. EADS has established recurring ERM self-assessment mechanisms, to be applied across EADS. This seeks to allow EADS to reasonably assure the effectiveness of its ERM system. The ERM effectiveness assurance comprises:

- ◎ ERM process: needs to be present and functioning throughout EADS without any material weaknesses and needs to fulfil the EADS ERM Policy requirements;
- ◎ risk appetite: needs to be in accordance with the EADS risk environment;
- ◎ ERM IC system: needs to have an effective IC system for the ERM process in place.

For the coverage of all of its activities, EADS has defined 20 high level business processes. In order to achieve ERM effectiveness, the ERM process as an overlaying process must be an integral part of these business processes. ERM effectiveness is assured if the achievement of the ERM process objectives is secured by adequate ERM controls which are operating effectively throughout the organisation and are within the respective risk appetite level.

Operating effectiveness is measured *inter alia* by assessing potential major failings in the ERM system which have been discovered in the business year or any significant changes made to the ERM system.

The combination of the following controls is designed to achieve reasonable assurance about ERM effectiveness:

Organisation	ERM control with explanations
Board of Directors/Audit Committee	<b>Regular monitoring</b> The Board of Directors and the Audit Committee review, monitor and supervise the ERM system.
Top Management	<b>ERM top management discussions</b> This control is the most important step of the ERM compliance process. All results of the risk management, self-assessment and confirmation procedures are presented by the Divisions or Business Units to top management and discussed and challenged at EADS CEO/CFO level.
Management	<b>ERM confirmation letter procedure</b> Entities and processes/departments heads that participate in the annual ERM compliance procedures need to sign ERM confirmation letters, especially on IC effectiveness and deficiencies or weaknesses. The scope of participants is determined by aligning coverage of EADS business with management's risk appetite.
ERM department	<b>ERM effectiveness measurement</b> Assess ERM effectiveness by performing operational risk management for the ERM process, benchmarks, etc.
Corporate Audit	<b>Audits on ERM</b> Provide independent assurance to the Audit Committee on the effectiveness of the EADS ERM system.
Compliance	<b>Alert System</b> Provide evidence for deficiencies of the EADS ERM system.

## Developments in 2011 and outlook

Today, companies are operating in a more volatile risk environment than ever before. Mature risk management capabilities are therefore more critical, more strategic and overall more valuable. EADS seeks to deploy its ERM system effectively across the Group in order to mitigate risk and drive competitive advantage, and invests accordingly. The design of its ERM system has evolved towards a more homogeneous and performance-oriented management tool that is integrated into the business, with the following major achievements in 2011:

- ◎ strengthening of ERM foundations, with a progressive appreciation of ERM processes and development of a true risk culture;
- ◎ beginning roll-out of a dedicated Group-wide ERM IT tool;
- ◎ strong ERM contribution to improvement initiatives launched across the Group; and
- ◎ successful finalisation of year-end ERM compliance process, i.e. ERM confirmation letters were received from all relevant risk owners in Divisions, Business Units and Business Functions, and all ERM top management discussions took place.

As an outlook, EADS seeks to:

- ◎ follow the path to further mature risk management, especially ERM awareness, capabilities, culture and risk management organisation;
- ◎ fully embed the risk management organisation into business operations;

- ◎ improve ERM measurement, modelling and analytics for decision-making;
- ◎ further improve transparency, reduce risk criticality and encourage seizing of opportunity by use of the ERM methodology;
- ◎ further deploy and harmonise the Group-wide ERM IT tool; and
- ◎ introduce a common skills model and career path for risk managers.

Generally, EADS seeks to continuously evaluate and improve the operating effectiveness of the ERM system. EADS will use the recommendations from the internal audit department, which has reviewed risk management of selected departments and business process, to further strengthen its ERM system.

## Board declaration – limitations

The Board of Directors believes to the best of its knowledge that the internal risk management and control system over financial reporting has worked properly in 2011 and provides reasonable assurance that the financial reporting does not contain any errors of material importance.

No matter how well designed, all ERM systems have inherent limitations, such as vulnerability to circumvention or management overrides of the controls in place. Consequently, no assurance can be given that EADS' ERM system and procedures are or will be, despite all care and effort, entirely effective.

## 4.6 Risk Factors

EADS is subject to many risks and uncertainties that may affect its financial performance. The business, results of operation or financial condition of EADS could be materially adversely affected by the risks described below. These are not the only risks EADS faces. Additional risks and uncertainties not presently known to EADS or that it currently considers immaterial may also impair its business and operations. For further information on these risks, please refer to EADS' Registration Document available on the Company's website [www.eads.com](http://www.eads.com).

### 4.6.1 Financial market risks

#### EU sovereign debt crisis

EADS' operations and performance depend significantly on economic conditions in Europe, the US and the rest of the world. Economic and market conditions may deteriorate significantly due to, among other things, crises affecting credit or liquidity markets, regional or global recessions, sharp fluctuations in commodity prices (including oil), currency exchange rates or interest rates, inflation or deflation, sovereign debt and bank debt rating downgrades, restructurings or defaults, or adverse geopolitical events (including those in the Middle East, North Africa and other regions). Sharp economic downturns may develop quickly and could affect EADS' business for short or extended periods and have a negative effect on EADS' future results of operation and financial condition.

European financial markets have recently experienced significant disruptions as a result of concerns regarding the ability of certain countries in the euro-zone to reduce their public deficits and refinance or pay their debt obligations as they come due. Banks with exposure to these countries and which must also comply with stricter regulation have faced funding issues and have started to reduce their balance sheets accordingly. Such disruptions have contributed to increased volatility in the exchange rate of the euro against other major currencies, affected the credit markets and created uncertainty regarding the near-term economic prospects of countries in the EU as well as the quality of loans to sovereign debtors and banks in the EU. There has also been an indirect impact on financial markets worldwide. If economic conditions in the relevant European countries or in Europe more generally were to deteriorate or if more pronounced market disruptions were to occur, there could be a new or incremental tightening in the credit markets, low liquidity, and extreme volatility in credit, currency, and equity markets. This could have a number of effects on EADS' business, including:

◎ requests by customers to postpone or cancel orders for aircraft due to, among other things, lack of adequate credit supply from the market to finance aircraft purchases or weak levels of passenger demand for air travel and cargo activity more generally;

- ◎ an increase in the amount of sales financing that EADS must provide to its customers to support aircraft purchases, thereby increasing its exposure to the risk of customer defaults despite any security interest it might hold in the underlying aircraft;
- ◎ further reductions in public spending for defence, homeland security and space activities, which go beyond those budget consolidation measures already proposed by governments around the world;
- ◎ insolvency or financial instability of outsourcing partners or suppliers or their inability to obtain credit to finance development and/or manufacture products, resulting in product delays;
- ◎ continued de-leveraging as well as mergers and bankruptcies of banks or other financial institutions, resulting in a smaller universe of counterparties and lower availability of credit, which may in turn reduce the availability of bank guarantees needed by EADS for its businesses or restrict its ability to implement desired foreign currency hedges; and
- ◎ default of investment or derivative counterparties and other financial institutions, which could negatively impact EADS' treasury operations including the cash assets of EADS.

EADS' financial results could also be negatively affected depending on gains or losses realised on the sale or exchange of financial instruments; impairment charges resulting from revaluations of debt and equity securities and other investments; interest rates; cash balances; and changes in fair value of derivative instruments. Increased volatility in the financial markets and overall economic uncertainty would increase the risk of the actual amounts realised in the future on the Company's financial instruments differing significantly from the fair values currently assigned to them.

#### Foreign currency

A significant portion of EADS' revenues is denominated in US dollars, while a substantial portion of its costs is incurred in euro, and to a lesser extent, in pounds sterling. Consequently, to the extent that EADS does not use financial instruments to hedge its exposure resulting from this foreign currency mismatch, its profits will be affected by market changes in the exchange rate of the US dollar against these currencies, and to a lesser extent, by market changes in the exchange rate of pound sterling against the euro. EADS' foreign currency hedging strategy may not protect it from significant changes in the exchange rate of the US dollar to the euro and the pound sterling, in particular over the longer-term, which could have a negative effect on its results of operation and financial condition. In addition, the portion of EADS' US dollar-denominated revenues that is not hedged in accordance with EADS' hedging strategy will be exposed to changes in exchange rates, which may be significant.



## Sales financing

In support of sales, EADS may agree to participate in the financing of customers or guarantee part of the market value of certain aircraft during limited periods after their delivery to customers. As a result, EADS has a significant portfolio of leases and other financing arrangements with airlines and other customers. No assurances may be given that the measures taken by EADS to protect itself from defaults by its customers or significant decreases in the value of the financed aircraft in the resale market will be effective, which may have a negative effect on its future results of operation and financial condition.

## Counterparty credit

In addition to the credit risk relating to sales financing as discussed above, EADS is exposed to credit risk to the extent of (i) non-performance by its counterparties for financial instruments, such as hedging instruments and cash investments, and (ii) price risks arising from the credit spreads embedded in cash investments. There can be no assurances that despite the implementation of a credit limit system and the diversification of counterparties, EADS will not lose the benefit of certain derivatives, or cash investments, in case of a systemic market disruption. In such circumstances, the value and liquidity of these financial instruments could decline and result in a significant impairment, which may in turn have a negative effect on EADS' future results of operation and financial condition.

## Equity investment portfolio

EADS holds several equity investments for industrial or strategic reasons, the business rationale for which may vary over the life of the investment. EADS is exposed to the risk of unexpected material adverse changes in the fair value of Dassault Aviation and that of other associated companies.

## Pension commitments

EADS participates in several pension plans for both executive as well as non-executive employees, some of which are underfunded. Although EADS has recorded a provision in its balance sheet for its share of the underfunding based on current estimates, there can be no assurance that these estimates will not be revised upward in the future, leading EADS to record additional provisions in respect of such plans.

For further information relating to financial market risks and the ways in which EADS attempts to manage these risks, see "Notes to the Consolidated Financial Statements (IFRS) – Note 34: Financial risk management".

## 4.6.2 Business-related risks

### Commercial aircraft market cyclicity

Historically, the market for commercial aircraft has shown cyclical trends, due in part to changes in passenger demand for air travel and cargo activity, which are in turn primarily influenced by economic or gross domestic product ("GDP") growth. Other factors, however, play an important role in determining the market for commercial aircraft, such as (i) the average age and technical obsolescence of the fleet relative to new aircraft, (ii) the number and characteristics of aircraft taken

out of service and parked pending potential return into service, (iii) passenger and freight load factors, (iv) airline pricing policies, (v) airline financial health and the availability of outside financing for aircraft purchases, (vi) deregulation and (vii) environmental constraints imposed upon aircraft operations. EADS expects that the market for commercial aircraft will continue to be cyclical, and that downturns in broad economic trends may have a negative effect on its future results of operation and financial condition.

### Terrorism, pandemics and catastrophic events

As past terrorist attacks (such as in New York and Madrid) and the spread of pandemics (such as H1N1 flu) have demonstrated, terrorism and pandemics may negatively affect public perception of air travel safety and comfort, which may in turn reduce demand for air travel and commercial aircraft. The outbreak of wars, riots or political unrest in a given region may also affect the willingness of the public to travel by air. Furthermore, major airplane crashes may have a negative effect on the public's or regulators' perceptions of the safety of a given class of aircraft, form of design, airline or air traffic. In response to such events, and the resulting negative impact on the airline industry or particular airlines, EADS may suffer from a decline in demand for all or certain types of its aircraft or other products, and EADS' customers may postpone delivery or cancel orders.

Moreover, EADS' business may be disrupted by the occurrence of these and other events, including information technology or infrastructure attacks or failures, damaging weather or acts of nature and other crises. Any such disruptions could affect EADS' internal operations or services provided to customers, and could have a significant adverse effect on EADS' future results of operations and financial condition as well as its reputation.

### Dependence on key suppliers and subcontractors

EADS is dependent on numerous key suppliers and subcontractors. Certain of these suppliers may experience financial or other difficulties in the future. Depending on the severity of these difficulties, some suppliers could be forced to reduce their output, shut down their operations or file for bankruptcy protection, which could disrupt the supply of materials and parts to EADS. It may be difficult for EADS to find a replacement for certain suppliers without significant delay, thereby impacting its ability to complete its customer obligations satisfactorily and in a timely manner. These events could in turn have a negative impact on EADS' future results of operation and financial condition. To the extent that EADS decides in the future to provide financial or other assistance to certain suppliers in financial difficulty in order to ensure an uninterrupted supply of materials and parts, it could be exposed to credit risk on the part of such suppliers.

Finally, if the macro-economic environment leads to higher than historic average inflation, the labour and procurement costs of EADS may increase significantly in the future. This may lead to higher component and production costs which could in turn negatively impact EADS' future profitability and cash flows, to the extent EADS is unable to pass these costs on to its

customers or require its suppliers to absorb such costs. EADS' suppliers or subcontractors may also make claims or assertions against it for higher prices or other contractual compensation, in particular in the event of significant changes to development or production schedules, which could negatively affect EADS' future profitability.

### Industrial ramp-up

As a result of the large number of new orders for aircraft recorded in recent years, EADS intends to accelerate its production in order to meet the agreed upon delivery schedules for such new aircraft (including helicopters). As it nears full capacity, EADS' ability to further increase its production rate will be dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials, parts (such as aluminium, titanium and composites) and skilled employees given high demand by EADS and its competitors, conversion of raw materials into parts and assemblies, and performance by suppliers and subcontractors (particularly suppliers of buyer-furnished equipment) who may experience resource or financial constraints due to ramp-up. Management of such factors is also complicated by the development of new aircraft programmes in parallel, in particular at Airbus, which carry their own resource demands. Therefore, the failure of any or all of these factors could lead to missed delivery commitments, and depending on the length of delay in meeting delivery commitments, could lead to additional costs and customers' rescheduling or terminating their orders.

### Dependence on public spending and on certain markets

In any single market, public spending (including defence and security spending) depends on a complex mix of geopolitical considerations and budgetary constraints, and may therefore be subject to significant fluctuations from year to year and country to country. In particular, the significant deterioration in public finances and high debt levels of the main industrialised countries have led several of them recently to seek to reduce their public spending. This is especially true with respect to defence and security budgets, where certain countries have either proposed or already implemented substantial reductions. Depending on how future budget reductions are finally implemented, the termination or reduction of funding for existing or new programmes may have a negative effect on EADS' future results of operations and financial condition.

Further, a significant portion of EADS' backlog is concentrated in certain regions or countries, including the US, China, India and the Middle East. Adverse economic and political conditions as well as downturns in broad economic trends in these countries or regions may have a negative effect on EADS' future results of operation and financial condition.

### Availability of government and other sources of financing

In prior years, EADS and its principal competitors have each received different types of government financing of product research and development. However, no assurances can be given that government financing will continue to be made available in the future. Moreover, the availability of other outside

sources of financing will depend on a variety of factors such as market conditions, the general availability of credit, EADS' credit ratings, as well as the possibility that lenders or investors could develop a negative perception of EADS' long- or short-term financial prospects if it incurred large losses or if the level of its business activity decreased due to an economic downturn. EADS may therefore not be able to successfully obtain additional outside financing on favourable terms, or at all, which may limit EADS' future ability to make capital expenditures, fully carry out its research and development efforts and fund operations.

### Competition and market access

The markets in which EADS operates are highly competitive. There can be no assurance that EADS will be able to compete successfully against its current or future competitors or that the competitive pressures it faces in all business areas will not result in reduced revenues or market share.

### Technologically advanced products and services

EADS offers its customers products and services that are technologically advanced, the design and manufacturing of which can be complex and require substantial integration and coordination along the supply chain. In addition, most of EADS' products must function under demanding operating conditions. Even though EADS believes it employs sophisticated design, manufacturing and testing practices, there can be no assurance that EADS' products or services will be successfully developed, manufactured or operated or that they will be developed or will perform as intended.

Certain of EADS' contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other products or services, to provide cancellation rights, or to reduce the price of subsequent sales to the same customer if its products fail to be delivered on time or to perform adequately. No assurances can be given that performance penalties or contract cancellations will not be imposed should EADS fail to meet delivery schedules or other measures of contract performance – in particular with respect to new development programmes such as the A350 XWB or A400M, for example.

In addition to any costs resulting from product warranties, contract performance or required remedial action, such problems may result in increased costs or loss of revenues – in particular as a result of contract cancellations – which could have a negative effect on EADS' future results of operation and financial condition. Any problems in this respect may also have a significant adverse effect on the competitive reputation of EADS' products.

### Major research and development programmes

The business environment in many of EADS' principal operating business segments is characterised by extensive research and development costs requiring significant up-front investments with a high level of complexity. The business plans underlying such investments often contemplate a long payback period before these investments are recouped, and assume a certain level of return over the course of this period in order to justify



the initial investment. There can be no assurances that the commercial, technical and market assumptions underlying such business plans will be met, and consequently, the payback period or returns contemplated therein achieved.

## **Restructuring, transformation and cost saving programmes**

In order to improve competitiveness, offset rising procurement costs and achieve profitability targets, among other things, EADS and its Divisions have launched several restructuring, transformation and cost saving programmes over the past several years. These include Group-wide programmes such as Power8 Plus and "Future EADS", as well as Division-specific programmes.

Anticipated cost savings under these programmes are based on estimates, however, and actual savings under these programmes may vary significantly. EADS' failure to successfully implement these planned cost reduction measures, or the possibility that these efforts may not generate the level of cost savings it expects going forward, could negatively affect its future results of operation and financial condition. In addition to the risk of not achieving the anticipated level of cost savings from the programmes above, EADS may also incur higher than expected implementation costs. In many instances, there may be internal resistance to the various organisational restructuring and cost reduction measures contemplated.

## **Acquisitions, joint ventures & strategic alliances**

As part of its business strategy, EADS may acquire businesses and form joint ventures or strategic alliances. Acquisitions are inherently risky because of difficulties that may arise when integrating people, operations, technologies and products. There can be no assurance that any of the businesses that EADS acquires can be integrated successfully and as timely as originally planned or that they will perform well and deliver the expected synergies once integrated. In addition, EADS may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to integration of acquired businesses. While EADS believes that it has established appropriate and adequate procedures and processes to mitigate these risks, there is no assurance that these transactions will be successful.

## **Public-private partnerships and private finance initiatives**

Defence customers, particularly in the UK, increasingly request proposals and grant contracts under schemes known as public-private partnerships ("PPPs") or private finance initiatives ("PFIIs"). There can be no assurances of the extent to which EADS will efficiently and effectively (i) compete for future PFI or PPP programmes, (ii) administer the services contemplated under the contracts, (iii) finance the acquisition of the equipment and the on-going provision of services related thereto, or (iv) access the markets for the commercialisation of excess capacity. EADS may also encounter unexpected political, budgetary, regulatory or competitive risks over the long duration of PPP and PFI programmes.

## **Programme-specific risks**

In addition to the risk factors mentioned above, EADS also faces the following programme-specific risks (while this list does not purport to be comprehensive, it highlights the current risks believed to be material by management):

© **A350 XWB programme:** in connection with the A350 XWB programme, EADS faces the following main challenges:

- (i) ensuring the maturity of technology linked to the use of composite materials, (ii) meeting the technical performance targets for the aircraft and respecting the development schedule, (iii) ensuring the production ramp-up and the ramp-up of key skilled personnel, e.g. for composite stress and design, (iv) securing the achievement of recurring cost targets, (v) ensuring the performance of the risk sharing partners, including those selected for sites divested by Airbus and those involved in the extended enterprise framework, (vi) maintaining customer satisfaction with a new customisation policy which is a key enabler for the production ramp-up, and (vii) managing customer contracts in coherence with the industrial delivery plan;

© **A380 programme:** in connection with the A380 programme, EADS faces the following main challenges:

- (i) management of stress in the supply chain as a result of the steep ramp-up in production in coming years; (ii) making continued improvements to lower the resources and costs associated with designing each customised "head of version" aircraft for new customers, in order to allow a higher number of heads of version to be completed each year, (iii) managing maturity in service, and (iv) mastering the root causes of, and launching the required action to fix, the hairline cracks discovered in the wing rib feet of certain A380 aircraft, and limiting associated costs to repair costs only;

© **A400M programme:** in connection with the A400M programme, EADS faces the following main challenges:

- (i) ensuring that the aircraft is both civilly certified and meets the initial military certification and qualification requirements (initial operational clearance (IOC)) of programme customers, (ii) developing a full set of in-service support goods and services that deliver mission success to programme customers, (iii) finalising aircraft development (engine, cargo systems, defensive aids, etc.), (iv) preparing entry into service of the first aircraft together with the necessary set of support elements, (v) managing the anticipated difficulties on the production ramp-up concurrently with the delivery of progressively enhanced aircraft capabilities (standard operational clearance (SOC) 1 to 3), and (vi) meeting the contractual time schedule;

© **A320neo programme:** in connection with the A320neo programme, EADS faces the following main challenges:

- (i) management of stress in the supply chain as a result of the industrial ramp-up, (ii) meeting the engine development status and its schedule, and (iii) ensuring the availability of skilled personnel for the programme;

- ◎ **NH90 programme:** in connection with the NH90 programme, EADS faces the following main challenges:
  - (i) meeting the development schedule, the cost objectives and the technical content (full operational configuration of the NATO Frigate Helicopter (NFH) version), (ii) continuing to proceed with the industrial ramp-up on the programme, (iii) mastering the contract renegotiations with governments and addressing requests to reduce contractually binding orders, and (iv) assuring support readiness in connection with multiple fleets entering into service; and
- ◎ **Lead systems integration:** in connection with lead systems integration projects (in particular Saudi border surveillance contract), EADS faces the following main challenges:
  - (i) meeting the schedule and cost objectives with a high number of sites with complex local infrastructures to deliver and the integration of COTS products (radars, cameras, sensors) with their interfaces into the system, (ii) assuring an efficient project and staffing ramp-up, and (iii) managing the rollout including subcontractors as well as training and organisational adaptation of the customer.

#### 4.6.3 Legal risks

##### Dependence on joint ventures and minority holdings

EADS generates a substantial proportion of its revenues through various consortia, joint ventures and equity holdings. While EADS seeks to participate only in ventures in which its interests are aligned with those of its partners, the risk of disagreement or deadlock is inherent in a jointly controlled entity, particularly in those entities that require the unanimous consent of all Members with regard to major decisions and specify limited exit rights. The other parties in these entities may also be competitors of EADS, and thus may have interests that differ from those of EADS.

##### Product liability and warranty claims

EADS designs, develops and produces a number of high profile products of large individual value, particularly civil and military aircraft and space equipment. EADS is subject to the risk of product liability and warranty claims in the event that any of its products fails to perform as designed. While EADS believes that its insurance programmes are adequate to protect it from such liabilities, no assurances can be given that claims will not arise in the future or that such insurance cover will be adequate.

##### Intellectual property

EADS relies upon patent, copyright, trademark and trade secret laws, and agreements with its employees, customers, suppliers and other parties, to establish and maintain its intellectual property rights in technology and products used in its operations. Despite these efforts to protect its intellectual property rights, any of EADS' direct or indirect intellectual property rights could be challenged, invalidated or circumvented. In addition, although EADS believes that it lawfully complies with the intellectual property rights granted to others, it has been accused of infringement on occasion and could have additional claims asserted against it in the future.

These claims could harm its reputation, cost it money and prevent it from offering certain products or services. Any claims or litigation in this area, whether EADS ultimately wins or loses, could be time-consuming and costly, injure EADS' reputation or require it to enter into licensing arrangements. EADS might not be able to enter into these licensing arrangements on acceptable terms. If a claim of infringement were successful against it, an injunction might be ordered against EADS, causing further damages.

##### Export controls and other laws and regulations

The export market is a significant market for EADS. There can be no assurance (i) that the export controls to which EADS is subject will not become more restrictive, (ii) that new generations of EADS products will not also be subject to similar or more stringent controls or (iii) that geopolitical factors or changing international circumstances will not make it impossible to obtain export licenses for one or more clients or constrain EADS' ability to perform under previously signed contracts. EADS is also subject to a variety of other laws and regulations, including among others, those relating to commercial relationships, the use of its products and anti-bribery provisions. Although EADS seeks to comply with all such laws and regulations, even unintentional violations or a failure to comply could result in administrative, civil or criminal liabilities resulting in significant fines and penalties or result in the suspension or debarment of EADS from government contracts for some period of time or suspension of EADS' export privileges.

In addition, EADS is sometimes subject to government inquiries and investigations of its business and competitive environment due, among other things, to the heavily regulated nature of its industry. Any such inquiry or investigation could result in an unfavourable ruling against EADS, which could have a negative effect on its business, results of operation and financial condition.

##### Litigation

EADS is currently engaged in a number of legal proceedings (See "Notes to the Consolidated Financial Statements (IFRS) – Note 32: Litigation and claims"). EADS expects to continue to incur time and expenses associated with its defence, regardless of the outcome, and this may divert the efforts and attention of management from normal business operations. Although EADS is unable to predict the outcome of these proceedings, it is possible that they will result in the imposition of damages, fines or other remedies, which could have a negative effect on EADS' business, results of operation and financial condition. An unfavourable ruling could also negatively impact EADS' stock price and reputation.

#### 4.6.4 Industrial and environmental risks

Given the scope of its activities and the industries in which it operates, EADS is subject to stringent environmental, health and safety laws and regulations in numerous jurisdictions around the world. EADS therefore incurs, and expects to continue to incur, significant capital expenditure and other operating costs to comply with increasingly complex laws and regulations covering the protection of the natural environment



as well as occupational health and safety. In addition, the various products manufactured and sold by EADS must comply with relevant environmental, health and safety and substances preparations related laws and regulations in the jurisdictions in which they operate. In the event of an accident or other serious incident, EADS may be required to conduct investigations

and undertake remedial activities. Employees, customers and other third parties may also file claims for personal injury, property damage or damage to the environment (including natural resources). Any problems in this respect may also have a significant adverse effect on the competitive reputation of EADS' products.

## 5. Financial Performances and Other Corporate Activities

EADS' Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

### 5.1 Consolidated Financial Statements ("IFRS")

#### 5.1.1 Consolidated Income Statement ("IFRS")

Table 1 – Consolidated Income Statement (IFRS)

(In € million)	2011	2010
<b>Revenues</b>	<b>49,128</b>	<b>45,752</b>
Cost of sales	(42,285)	(39,528)
<b>Gross margin</b>	<b>6,843</b>	<b>6,224</b>
Selling expenses	(981)	(1,024)
Administrative expenses	(1,427)	(1,288)
Research and development expenses	(3,152)	(2,939)
Other income	359	171
Other expenses	(221)	(102)
Share of profit from associates under the equity method	164	127
Other income from investments	28	18
<b>Profit before finance costs and income taxes</b>	<b>1,613</b>	<b>1,187</b>
Total finance costs	(220)	(371)
Income taxes	(356)	(244)
<b>Profit for the period</b>	<b>1,037</b>	<b>572</b>
<b>Attributable to:</b>		
Equity owners of the parent ( <b>Net income</b> )	1,033	553
Non-controlling interests	4	19

## 5.1.2 Revenues

For the full year 2011, EADS' revenues increased 7% to €49.1 billion (FY 2010: €45.8 billion). This growth is driven by volume and mix effects at Airbus and the increase of commercial activity at Eurocopter. These increases more than offset a slight decrease at Astrium and Cassidian. The overall 2011 revenue contribution from the first consolidation of the major acquisitions was around €300 million, mainly Vector Aerospace and Satair, while the EBIT\* impact was insignificant. Physical deliveries remained high with 534 aircraft at Airbus Commercial, 503 helicopters at Eurocopter and the 46<sup>th</sup> consecutive successful Ariane 5 launch.

**Table 2 – Reconciliation Profit (loss) before finance costs and income taxes to EBIT\* (IFRS)**

(In € million)	2011	2010
<b>Profit (loss) before finance costs and income taxes</b>	<b>1,613</b>	<b>1,187</b>
Disposal and impairment of goodwill	42	0
Exceptional depreciation and disposal	41	44
<b>EBIT pre-goodwill impairment and exceptionals</b>	<b>1,696</b>	<b>1,231</b>

EADS' reported EBIT\* stood at €1,696 million (FY 2010: €1,231 million). At Airbus Commercial, a higher number of deliveries and better pricing more than compensated hedge rate deterioration and higher R&D. The total one-time effects at Airbus were roughly neutral. The negative impact from the A350 XWB provision was more than offset by the effects from the A340 completion and by a positive foreign exchange impact on pre-delivery payments mismatch and balance sheet revaluation. The performance of Astrium, Cassidian and Eurocopter includes around €200 million net in negative one-time items. This is partially compensated by positive one-offs in Other Businesses and Headquarters. The largest proportion is in Eurocopter, which has reported roughly €115 million of negative one-time effects, driven mainly by governmental programmes and by the SHAPE transformation programme. Cassidian booked a net charge of €72 million for restructuring and programmes. At Astrium, a charge of €23 million was booked in the fourth quarter, relating to the AGILE transformation programme.

EBIT\* before one-off (adjusted EBIT\*) – an indicator capturing the underlying business margin by excluding non-recurring charges or profits caused by movements in provisions or foreign exchange impacts – stood at around €1.8 billion (FY 2010: €1.3 billion) for EADS and at around €0.5 billion for Airbus (FY 2010: around €0.3 billion). Compared to 2010, this represents a significant rise, despite an increase in research and development expenses and US dollar headwind. It benefited from good performance in Airbus legacy programmes thanks

## 5.1.3 EBIT pre-goodwill impairment and exceptionals

EADS uses EBIT pre-goodwill impairment and exceptionals as a key indicator of its economic performance. The term "exceptionals" refers to such items as depreciation expenses of fair value adjustments relating to the EADS merger, the Airbus combination and the formation of MBDA, as well as impairment charges thereon. In the following, EBIT pre-goodwill impairment and exceptionals is earmarked as EBIT\*.

to volume, mix and price improvements. Also, Airbus Military and especially Eurocopter contributed to the performance improvement, the latter mainly from its commercial series and services activity. The Headquarters EBIT\* before one-off improved in 2011, mainly due to an increased allocation of management fees to Divisions and positive impacts from Group eliminations in the fourth quarter.

Net Income increased by 87% to €1,033 million (FY 2010: €553 million), or earnings per share of €1.27 (FY 2010: €0.68). The Net Income before one-off increased to €1,061 million (FY 2010: €603 million). These increases are mainly driven by the operational improvement reflected in the EBIT\*, which is flowing down to the Net Income. Net Income before one-off is the Net Income stripped out of the EBIT\* one-offs. It excludes other financial result (except the unwinding of discount on provisions), the positive one-off in the interest result linked to the termination of the A340 programme and all tax effects on the mentioned items.

The finance result amounts to €-220 million (FY 2010: €-371 million). The interest result of €13 million (FY 2010: €-99 million) improved mainly due to higher interest income related to the good cash performance. The 2011 interest result includes a positive one-time release of €120 million due to the completion of the A340 programme. The other financial result amounts to €-233 million (FY 2010: €-272 million). This line includes, among others, a negative revaluation of EADS' foreign exchange options for around €90 million and the unwinding of discounted provisions for an amount of €-172 million.



Table 3 – EBIT\* and Revenues by Division

By Division (In € million)	EBIT*			Revenues		
	FY 2011	FY 2010	Change	FY 2011	FY 2010	Change
Airbus Division <sup>(1)</sup>	584	305	+91%	33,103	29,978	+10%
Airbus Commercial	543	291	+87%	31,159	27,673	+13%
Airbus Military	49	21	+133%	2,504	2,684	-7%
Eurocopter	259	183	+42%	5,415	4,830	+12%
Astrium	267	283	-6%	4,964	5,003	-1%
Cassidian	331	457	-28%	5,803	5,933	-2%
Headquarters/Consolidation	196	(22)	-	(1,409)	(1,174)	-
Other Businesses	59	25	+136%	1,252	1,182	+6%
<b>Total</b>	<b>1,696</b>	<b>1,231</b>	<b>+38%</b>	<b>49,128</b>	<b>45,752</b>	<b>+7%</b>

(1) The reportable segments Airbus Commercial and Airbus Military form the Airbus Division. Eliminations are treated at the Division level.

### 5.1.4 Consolidated Statements of Financial Position (“IFRS”)

Table 4 – Consolidated Statements of Financial Position (IFRS)

(In € million)	31 December 2011	31 December 2010	Change
Intangible Assets	12,745	11,299	1,446
Property, Plant and Equipment	14,233	13,504	729
Investments in associates under the equity method	2,677	2,451	226
Other investments and other long-term financial assets	2,378	2,386	(8)
Other non-current assets	1,884	1,975	(91)
Deferred tax assets	4,309	4,250	59
Non-current securities	7,229	5,332	1,897
<b>Non-current assets</b>	<b>45,455</b>	<b>41,197</b>	<b>4,258</b>
Inventories	22,563	20,862	1,701
Trade receivables	6,399	6,632	(233)
Other current assets	4,503	3,632	871
Current securities	4,272	5,834	(1,562)
Cash and cash equivalents	5,284	5,030	254
<b>Current assets</b>	<b>43,021</b>	<b>41,990</b>	<b>1,031</b>
<b>Total assets</b>	<b>88,476</b>	<b>83,187</b>	<b>5,289</b>
Equity attributable to equity owners of the parent	8,850	8,841	9
Non-controlling interests	20	95	(75)
<b>Total equity</b>	<b>8,870</b>	<b>8,936</b>	<b>(66)</b>
Non-current provisions	9,125	8,213	912
Long-term financing liabilities	3,628	2,870	758
Deferred tax liabilities	1,050	1,195	(145)
Other non-current liabilities	18,297	18,203	94
<b>Non-current liabilities</b>	<b>32,100</b>	<b>30,481</b>	<b>1,619</b>
Current provisions	5,860	5,766	94
Short-term financing liabilities	1,476	1,408	68
Trade liabilities	9,630	8,546	1,084
Current tax liabilities	308	254	54
Other current liabilities	30,232	27,796	2,436
<b>Current liabilities</b>	<b>47,506</b>	<b>43,770</b>	<b>3,736</b>
<b>Total equity and liabilities</b>	<b>88,476</b>	<b>83,187</b>	<b>5,289</b>

## Non-current assets

Intangible assets of € 12,745 million (prior year-end: € 11,299 million) include € 10,760 million (prior year-end: € 9,809 million) of goodwill, which is mainly allocated to Airbus Commercial (€ 6,657 million), Cassidian (€ 2,551 million), Astrium (€ 1,171 million) and Eurocopter (€ 319 million). The increase of goodwill primarily relates to the acquisition of Vizada, Vector Aerospace and Satair. The annual impairment tests, which were performed in the fourth quarter, led to an impairment charge of € 20 million in Other Businesses.

Eliminating foreign exchange-rate effects of € +111 million, property, plant and equipment increase by € +618 million to € 14,233 million (prior year-end: € 13,504 million), including leased assets of € 574 million (prior year-end: € 759 million). Property, plant and equipment also comprise "Investment property" amounting to € 74 million (prior year-end: € 77 million).

Investments in associates under the equity method of € 2,677 million (prior year-end: € 2,451 million) mainly reflect the increase in the value of the equity investment in Dassault Aviation, amounting to € 2,552 million (prior year-end: € 2,318 million).

Other investments and other long-term financial assets of € 2,378 million (prior year-end: € 2,386 million) are related to Airbus for an amount of € 1,659 million (prior year-end: € 1,765 million), mainly concerning the non-current portion of aircraft financing.

Other non-current assets mainly comprise non-current derivative financial instruments and non-current prepaid expenses. The decrease by € -91 million to € 1,884 million (prior year-end: € 1,975 million) is mainly caused by the negative variation of fair values of derivative financial instruments (€ -116 million) and the decrease of paid option premiums (€ -87 million) partly compensated by an increase of non-current prepaid expenses (€ +163 million).

Deferred tax assets of € 4,309 million (prior year-end: € 4,250 million) are presented as non-current assets as required by IAS 1. The increase is mainly due to the variation of fair values of derivative financial instruments.

The fair values of derivative financial instruments are included in other non-current assets (€ 486 million, prior year-end: € 602 million), in other current assets (€ 404 million, prior year end: € 364 million), in other non-current liabilities (€ 2,140 million, prior year-end: € 2,109 million) and in other current liabilities (€ 995 million, prior year-end: € 821 million) which corresponds to a total net fair value of € -2,245 million (prior year-end: € -1,964 million). The volume of hedged US dollar-contracts increases from US\$ 70.2 billion as at 31 December 2010 to US\$ 75.1 billion as at 31 December 2011. The US dollar spot rate became more favorable (US\$/€ spot rate of 1.29 at 31 December 2011 vs. 1.34 at 31 December 2010). The average US dollar hedge rate for the hedge portfolio of the Group improves from US\$/€ 1.38 as at 31 December 2010 to US\$/€ 1.37 as at 31 December 2011.

Financial markets disruptions witnessed in recent years have been accompanied with dissolving of no-arbitrage relations, which impact the fair values of the financial instruments held by EADS. For this reason per year-end 2011, the Group changed the approach for the estimate of fair values of currency forwards and swaps from the zero coupon method towards the currency forward rate based par method. This represents a change of accounting estimate as defined in IAS 8.5. The zero coupon method derives forward exchange rates from differences in the relevant interest yield curves of the currencies involved and was used as a proxy for the forward rate based par method that uses quoted forward points, rather than interest rate quotes, to obtain forward exchange rates. In effect, had the Group applied the interest-rate differential method as of year-end 2011, total unrealised loss recognised in AOCI, net of tax, would have increased by € 0.6 billion. The effect from using a refined fair value measure will reverse in AOCI over the life of the currency forwards and swaps outstanding at year end 2011.

## Current assets

Inventories of € 22,563 million (prior year-end: € 20,862 million) increase by € +1,701 million. This is partly driven by higher unfinished goods and services for Eurocopter (€ +403 million), Airbus (€ +333 million) and Astrium (€ +244 million) programmes. Moreover, there are also increases in raw materials (€ +326 million), advance payments made (€ +102 million) and finished goods (€ +101 million) for the Group.

Trade receivables decrease by € -233 million to € 6,399 million (prior year-end: € 6,632 million), mainly caused by Astrium (€ -669 million) and Airbus (€ 179 million), partly compensated by an increase at Eurocopter (€ +527 million) and at Cassidian (€ +76 million).

Other current assets include "Current portion of other long-term financial assets", "Current other financial assets", "Current other assets" and "Current tax assets". The increase of € +871 million to € 4,503 million (prior year-end: € 3,632 million) relates, among others, to VAT receivables and receivables from related companies.

Cash and cash equivalents increase from € 5,030 million to € 5,284 million.

## Total equity

Equity attributable to equity owners of the parent (including purchased treasury shares) amounts to € 8,850 million (prior year-end: € 8,841 million). The increase in equity is mainly due to total comprehensive income for the period of € +163 million. It includes the profit for the period, which is partly compensated by changes of fair values in cash flow hedges and actuarial losses on defined benefit plans. The cash distribution to EADS NV shareholders of € -178 million also reduces equity.

Non-controlling interests decrease by € -75 million to € 20 million (prior year-end: € 95 million), mainly due to the purchase of the remaining 25% of DADC Luft- und Raumfahrt Beteiligungs AG, Munich by EADS.



## Non-current liabilities

Non-current provisions of €9,125 million (prior year-end: €8,213 million) comprise the non-current portion of pension provisions with an increase of €+591 million to €5,628 million (prior year-end: €5,037 million) mainly resulting from actuarial losses on defined benefit plans due to lower discount rates.

Moreover, other provisions, which are part of non-current provisions, increase by €+321 million to €3,497 million (prior year-end: €3,176 million). The increase mainly reflects provisions for contract losses (€+233 million). The increase of provisions for contract losses is mainly related to the A350 XWB programme reflecting the Entry-into-Service now scheduled for the first half-year 2014.

Long-term financing liabilities, mainly comprising bonds, increase by €+758 million to €3,628 million (prior year-end: €2,870 million). This increase is mainly related to new loans, which are granted by the European Investment Bank (US\$721 million) and the Development Bank of Japan (US\$300 million).

Other non-current liabilities, comprising "Non-current other financial liabilities", "Non-current other liabilities" and "Non-current deferred income", increase in total by €+94 million to €18,297 million (prior year-end: €18,203 million), due to higher advance payments and an increase in fair values for financial instruments, partly compensated by a decrease of refundable advances in "non-current other financial liabilities".

Refundable advances including interest accretion for the total amount of €406 million representing obligations arising out of contracts associated with the long-range programme in Airbus Commercial have been settled as a result of actions taken by Airbus in the third quarter 2011, due to the termination of the A340 programme. The release of the liabilities has positively affected the consolidated income statement before taxes by €192 million in other operating income and by €120 million in interest result. The settlement has further resulted in an operating cash outflow of €94 million in the fourth quarter 2011.

## Current liabilities

Current provisions increase by €+94 million to €5,860 million (prior year-end: €5,766 million) and comprise the current portion of pension provisions (€193 million) and of other provisions (€5,667 million). An increase of provisions for outstanding costs (€+345 million) and of provisions for aircraft financing (€+54 million) is partly compensated by a decrease of provisions for loss making contracts (€-410 million), mainly following a reclassification to inventories.

Other current liabilities include "Current other financial liabilities", "Current other liabilities" and "Current deferred income". They increase by €+2,436 million to €30,232 million (prior year-end: €27,796 million). Other current liabilities mainly comprise current customer advance payments of €25,006 million (prior year-end: €23,285 million), increasing by €+1,721 million.

### 5.1.5 Net Cash

EADS' Net Cash position amounted to a solid €11.7 billion (year-end 2010: €11.9 billion) after acquisitions. It also reflects a cash contribution to pension assets of €489 million.

Gross Cash comprises "Non-current securities", "Current securities" and "Cash and cash equivalents". For the Net Cash calculation "Long-term financing liabilities" and "Short-term financing liabilities" are deducted from the Gross Cash.

Free Cash Flow for the full year 2011 benefited from good operational performance. Free Cash Flow stood at €958 million (FY 2010: €2,707 million). After customer financing and before acquisitions, the Free Cash Flow of €2,493 million is significantly above expectations thanks to higher order intake and higher than expected deliveries at Airbus, better EBIT\* before one-off and better than expected cash inflow from government customers. Gross Cash Flow from operations increased compared to one year ago, mainly due to the improvement of profitability before depreciation and provisioning.

The working capital includes an inventory increase at Airbus due to the progressive ramp-up on production programmes. The ramp-up in inventories was overcompensated by higher advance payments received at Airbus. Customer financing generated cash of €135 million in 2011 as the lessor and global banking markets continue to be active despite recent concerns. The level of industrial capital expenditure is slightly below the 2010 level. In line with the Group's strategy, EADS pursued some significant acquisitions in 2011 with an overall cash-out of approximately €1.5 billion.

### 5.1.6 Order Intake and Order Book

EADS' order intake increased by 58% to €131.0 billion (FY 2010: €83.1 billion), driven by the higher level of commercial aircraft orders at Airbus. At the end of December 2011, the Group's order book increased by 21% to a record level of €541.0 billion (year-end 2010: €448.5 billion), underpinning EADS' top line growth into the future. The Airbus Commercial backlog benefited from a positive revaluation impact of around €15 billion due to the US dollar closing spot rate that has strengthened since year-end 2010. The defence order book decreased to €52.8 billion (year-end 2010: €58.3 billion).

**Table 5 – Order Intake and Order Book by Division**

By Division (In € million)	Order Intake <sup>(2)</sup>			Order Book <sup>(2)</sup>		
	FY 2011	FY 2010	Change	31 December 2011	31 December 2010	Change
Airbus Division <sup>(1)</sup>	117,874	68,223	+73%	495,513	400,400	+24%
Airbus Commercial	117,301	68,210	+72%	475,477	378,907	+25%
Airbus Military	935	152	+515%	21,315	22,819	-7%
Eurocopter	4,679	4,316	+8%	13,814	14,550	-5%
Astrium	3,514	6,037	-42%	14,666	15,760	-7%
Cassidian	4,168	4,312	-3%	15,469	16,903	-8%
Headquarters/Consolidation	(1,233)	(1,409)	-	(1,467)	(1,639)	-
Other Businesses	2,025	1,668	+21%	2,983	2,519	+18%
<b>Total</b>	<b>131,027</b>	<b>83,147</b>	<b>+58%</b>	<b>540,978</b>	<b>448,493</b>	<b>+21%</b>

(1) The reportable segments Airbus Commercial and Airbus Military form the Airbus Division. Eliminations are treated at the Division level.

(2) Contributions from commercial aircraft activities to EADS Order Intake and Order Book are based on list prices.

### 5.1.7 EADS Division details

**Airbus** consolidated revenues increased by 10% to €33,103 million (FY 2010: €29,978 million), mainly driven by the deliveries increase. The Airbus consolidated EBIT\* increased by 91% to €584 million (FY 2010: €305 million).

Airbus Commercial revenues amounted to €31,159 million (FY 2010: €27,673 million). Production at Airbus increased for the tenth year in a row, leading to a new record of 534 physical deliveries of commercial aircraft, including 26 A380. Compared to one year ago, Airbus Commercial revenues benefited mainly from a favourable volume and mix effect, which included a higher number of A320 family and A380 deliveries as well as a pricing improvement. The negative impact on revenues from foreign exchange is around €400 million. Airbus Commercial reported EBIT\* amounted to €543 million (FY 2010: €291 million). In comparison to one year ago, the Airbus Commercial EBIT\* before one-off of around €490 million (FY 2010: around €280 million) benefited from operational improvement including a favourable pricing effect. The improvement year-on-year is partially reduced by hedge rate deterioration of around €200 million and higher R&D expenses, particularly for the A350 XWB programme. While revenues at Airbus Military decreased by 7% to €2,504 million (FY 2010: €2,684 million) due to lower revenue recognition for the A400M, EBIT\* improved significantly to €49 million (FY 2010: €21 million) due to a favourable mix, operational improvements and overhead cost reductions.

In 2011, Airbus Commercial beat its previous order intake record with 1,419 net orders (FY 2010: 574 net orders). The A320neo family alone won 1,226 new firm orders, making it the fastest selling jet ever in commercial aviation history. Airbus started flight testing its A320 "Sharklet" wing-tip devices, which promise a 3.5% reduction in fuel-burn. Further significant milestones include the 7,000<sup>th</sup> aircraft delivery. Two airlines, Korean Air and China Southern, took first delivery of the A380, bringing the total

number of airlines operating the aircraft to seven. A380 series production progressed, underlined by the 26 deliveries in 2011, which were above target.

Production rate increases on the Single Aisle and Long Range family are well underway, despite the ramp-up challenges. Due to the positive order momentum, Airbus has decided to ramp up production of the A330 to rate eleven in Q2 2014 provided the Emission Trading Scheme issue does not harm aircraft orders. Management is devoting maximum attention to solving the A380 wing rib feet issues. The cost to fix this issue will be borne by Airbus and an estimate has been provided for within the warranty provisioning for the aircraft delivered. The A350 XWB programme is advancing. Major sections of the A350 XWB arrived at the Final Assembly Line ("FAL") in Toulouse at the end of 2011. In February 2012, the A350 XWB Trent engine successfully performed its first flight on an A380 "Flying Test Bed". Entry-into-Service is scheduled for H1 2014. The programme is very challenging: the schedule is tightening as Airbus progresses towards its next milestones, particularly Entry-into-FAL. Airbus advanced its services strategy in 2011 by acquiring logistics specialist Satair and US-based Metron Aviation, a provider of advanced Air Traffic Management solutions.

Airbus Military delivered a record number of 29 aircraft in 2011, including six cutting-edge A330 Multi-Role Tanker Transport aircraft. In a challenging environment, Airbus Military received five orders for light and medium aircraft. Flight testing on the A400M continues at maximum capacity with five test aircraft aiming for a timely achievement of first customer delivery. Final assembly of the first customer aircraft started in Seville.

At the end of December 2011, Airbus' consolidated order book was valued at €495.5 billion (year-end 2010: €400.4 billion). The Airbus Commercial backlog amounted to €475.5 billion (year-end 2010: €378.9 billion), which comprises 4,437 units representing an industry record (year-end 2010: 3,552 aircraft).



It benefited from a positive revaluation impact of around € 15 billion due to the strengthening value of the US dollar against the euro at the end of 2011 versus 2010. Airbus Military recorded five new orders, bringing the order book to 217 aircraft. The order book of Airbus Military stood at € 21.3 billion (year-end 2010: € 22.8 billion).

Revenues at **Eurocopter** increased 12% and reached a record level of € 5,415 million (FY 2010: € 4,830 million), driven by the progressive recovery of the civil sector. Deliveries totalled 503 helicopters (FY 2010: 527 helicopters), including the 1,000<sup>th</sup> Dauphin, the 1,000<sup>th</sup> EC135 and the 100<sup>th</sup> NH90. The Division's EBIT\* increased by 42% to € 259 million (FY 2010: € 183 million). The increase in revenues and EBIT\* compared to one year ago results from a favourable mix effect in commercial deliveries and support activities as well as better operational performance. Revenues also include € 210 million from the first consolidation of Vector Aerospace. A net charge of around € 115 million was booked in 2011. This mainly relates to governmental programmes as well as to SHAPE. The 2010 figure included a net charge of € 120 million. R&D expenses increased in the context of Eurocopter's innovation strategy.

Benefiting from a significant civil sector recovery and its long-term innovation strategy, Eurocopter recorded net orders of 457 helicopters in 2011, compared to 346 net orders the year before. These included major contract awards for the EC225, the first large booking for Eurocopter's enhanced EC145 T2 and firm orders for the new EC175. The positive market momentum has continued into the current year with 191 orders and commitments at the HeliExpo Air Show in Dallas early 2012.

The NH90 programme reached a major milestone with the declaration of compliance for the NH90 Tactical Transport Helicopter (TTH) Final Operational Configuration in November 2011.

Eurocopter acquired Vector Aerospace to boost its services business and international footprint. Its global presence was further strengthened through a co-operation in Kazakhstan and a new production plant in Mexico. In 2011, Eurocopter reached important new milestones in its innovation drive, initiating flight tests of an AS350 hybrid helicopter demonstrator and the X³ demonstrator. In 2011, Eurocopter completed its two-year SHAPE transformation effort, which strengthened its capabilities during the market downturn of the past few years. The Division's order book stood at € 13.8 billion (year-end 2010: € 14.6 billion) comprising 1,076 helicopters (year-end 2010: 1,122 helicopters).

**Astrium** revenues in 2011 stood stable at € 4,964 million (FY 2010: € 5,003 million) thanks to excellent programme execution, despite a challenging institutional market and increased competition. EBIT\* decreased slightly to € 267 million (FY 2010: € 283 million). The strong performance in the Satellites and Space Transportation businesses was weighed down by lower activity in Services, expenses related to the Vizada acquisition and a charge of € 23 million booked for the AGILE transformation programme in the last quarter.

Order intake reached € 3.5 billion in 2011, showing continued momentum, although at a lower level than the exceptional previous two years. Landmark deals were secured with telecommunications satellite sales to US DIRECTV and Malaysian MEASAT operators. This represents Astrium's first success in its drive to improve overall competitiveness in export markets through the AGILE transformation programme. In 2011, Ariane 5 performed five successful launches, including its 46<sup>th</sup> consecutive successful launch and the launch of the second Automated Transfer Vehicle (ATV).

Overall, 13 Astrium-built satellites were launched in 2011, thereof the first two Galileo In-Orbit Validation satellites and the very high resolution Earth observation satellite Pléiades 1A, for which Astrium Services will be the exclusive commercial distributor. Significant progress towards future expansion in the services sector was achieved through the acquisition of Vizada, which was closed in December. At the end of December 2011, the order book of Astrium amounted to € 14.7 billion (year-end 2010: € 15.8 billion).

**Cassidian** generated robust revenues of € 5,803 million (FY 2010: € 5,933 million). Profitability was in line with expectations, with EBIT\* decreasing to € 331 million (FY 2010: € 457 million). While the EBIT\* reflects a solid margin in mature programmes, it is burdened by a significant increase in self-funded R&D, a restructuring provision of € 38 million and by a net negative charge of € 34 million on programmes. Budget constraints in the domestic markets are clearly having an impact on the business of Cassidian with some delayed order intake, delayed financing and higher R&D.

The Division achieved an order intake of € 4.2 billion in 2011 despite a more challenging environment. The order book includes a contract for the first phase of the United Arab Emirates Command and Control System (ECCS) for EMIRAGE Systems, a Joint Venture between Cassidian and C4 Advanced Solutions. The Division has started a far-reaching transformation process to foster globalisation and adapt to a challenging business environment in the European home markets.

In 2011, Cassidian continued to progress in its development of Unmanned Aerial Systems (UAS) capabilities. The Euro Hawk UAS, a joint programme with Northrop Grumman for the German armed forces, performed its ferry flight from the US to Germany in July. Following this flight the signal intelligence mission system, developed by Cassidian, was successfully integrated ahead of flight testing. Cassidian signed UAS collaboration agreements with Turkish Aerospace Industries and with Alenia Aermacchi of Italy. In late 2011, Cassidian signed a further agreement with Rheinmetall to pursue the UAS activities together with EADS within a new entity. The delivery of the 300<sup>th</sup> Eurofighter in October marked yet another milestone in this multinational programme. With the agreed delivery stretch, Eurofighter production is secured until 2017. At the end of December 2011, the order book of Cassidian stood solid at € 15.5 billion (year-end 2010: € 16.9 billion).

## Headquarters and Other Businesses (not belonging to any Division)

Revenues of Other Businesses increased 6% to € 1,252 million (FY 2010: € 1,182 million). EADS North America revenues increased thanks to a ramp-up in Light Utility Helicopters (LUH) and Medium & Light transport aircraft deliveries. At Sogerma, rate increases and higher cabin seat activity offset the transfer of some activities to Eurocopter following the Vector Aerospace acquisition. EBIT\* of Other Businesses more than doubled to € 59 million (FY 2010: € 25 million), including increases at ATR and Sogerma as well as a gain from the divestiture of Defense Security and Systems Solutions (DS3) in EADS North America that was completed in May.

ATR achieved an exceptional annual order intake with 119 firm orders (FY 2010: 78). These firm orders represent over 80% of all regional aircraft orders in the range of 50 to 90 seats, confirming the success of the upgraded product range.

In August 2011, ATR delivered its first ATR 72-600 to launch

customer Royal Air Maroc. In total, ATR delivered 54 aircraft in 2011 (FY 2010: 52), thereof 10 ATR 72-600s. In 2011, ATR reached a record backlog of 224 aircraft, representing three years of production.

EADS North America received a contract from Lockheed Martin to supply its TRS-3D radar for use on board of US Navy Littoral Combat Ships. In October, EADS North America achieved another significant milestone on the UH-72A Lakota Light Utility Helicopter (LUH) programme with the delivery of Lakotas to the National Guard outfitted with the Security and Support (S&S) Battalion Mission Equipment Package (MEP). To date, EADS North America has delivered more than half of the planned 345 LUH to the Army, all on time and within budget. The US Navy has also taken delivery of five Lakota for use at the US Naval Test Pilot School. As of the end of December 2011, the order book of Other Businesses had increased by 18% to € 3.0 billion (year-end 2010: € 2.5 billion).

## 5.2 EADS N.V. Company financial statements

Table 6 – Balance sheet EADS N.V.

(In € million)	31 December 2011	31 December 2010
Goodwill	4,354	4,354
Financial fixed assets	9,802	7,960
Non-current securities	7,103	5,172
<b>Fixed assets</b>	<b>21,259</b>	<b>17,486</b>
Receivables and other assets	6,362	4,874
Securities	4,140	5,756
Cash and cash equivalents	3,394	3,199
<b>Non-fixed assets</b>	<b>13,896</b>	<b>13,829</b>
<b>Total assets</b>	<b>35,155</b>	<b>31,315</b>
<b>Stockholders' equity<sup>(1)</sup></b>	<b>8,850</b>	<b>8,841</b>
Financing liabilities	3,090	2,194
<b>Non-current liabilities</b>	<b>3,090</b>	<b>2,194</b>
Financing liabilities	0	29
Other current liabilities	23,215	20,251
<b>Current liabilities</b>	<b>23,215</b>	<b>20,280</b>
<b>Total liabilities and stockholders' equity</b>	<b>35,155</b>	<b>31,315</b>

(1) The balance sheet is prepared before appropriation of the net result.



Table 7 – Income Statement EADS N.V.

(In € million)	2011	2010
Income from investments	1,010	463
Other results	23	90
<b>Net result</b>	<b>1,033</b>	<b>553</b>

## 5.3 Information on statutory accountants

	Date of First Appointment	Expiration of Current Term of Office <sup>(1)</sup>
KPMG Accountants N.V. Rijnzathe 14 – 3454 PV De Meern — The Netherlands Represented by J.C.M. van Rooijen	10 May 2000	31 May 2012
Ernst & Young Accountants LLP Boompjes 258, 3011 XZ Rotterdam — The Netherlands Represented by C.T. Reckers	24 July 2002	31 May 2012

(1) A resolution will be submitted to the General Meeting of Shareholders called for 31 May 2012, in order to appoint Ernst & Young Accountants LLP and KPMG Accountants N.V. as the Company's auditors for the 2012 financial year.

KPMG Accountants N.V., Ernst & Young Accountants LLP and their respective representatives are registered with the Royal NIVRA (*Nederlands Instituut van Register Accountants*).

## 5.4 Human Resources

### 5.4.1 Workforce information

As of 31 December 2011, the EADS workforce was composed of 133,115 employees. The total number of employees compared to 2010 increased by 11,424. This increase in the active workforce is explained by important consolidation changes in the course of 2011.

Eurocopter consolidated the Vector Aerospace Group with 2,419 employees. PFW Aerospace and its 2,155 employees were acquired by Airbus as well as Satair with 377 employees. Furthermore, the ND Satcom Group joined Astrium with 301 and the Vizada/Mobsat Holding with 719 employees. Additional minor acquisitions and consolidation changes further contributed to this increase in headcount.

In 2011, the workforce consisted of 96.5% full time employees. Depending on country and hierarchy level, the average contractual working time is between 35 and 40 hours a week.

In 2011, 8,238 employees worldwide entered employment with EADS (5,047 in 2010). At the same time, 3,666 employees left EADS (3,213 in 2010).

In total, 92.1% of EADS' active workforce is located in Europe on more than 100 sites.

### 5.4.2 Organisation of Human Resources management

The overall mission of Group HR function is to ensure that EADS can attract, develop, and retain a world-class competent, motivated and flexible workforce which fits current and anticipated future business requirements. HR facilitates diversity, continuous integration and internationalisation of the Group and contributes to a common EADS spirit. The HR strategy aims at making EADS a global employer of choice and an innovative and engaging place to work for our employees. HR supports managers in their leadership and people management duties and advises employees.

Since 2006, the HR organisation has been further integrated, in line with the Group business requirements. The role of the HR Board consisting of divisional and group HR directors and functional reporting lines from the Divisions to the Group Head of HR fosters a coordinated Group HR policy. The HR function has implemented global shared services for HR administration, payroll, recruitment and learning administration using a common global HR information system. An integrated HR portal has been implemented on the basis of harmonised HR processes and tools.

These efforts over the last years and the establishment of shared service and governance structures are providing an increasingly integrated HR function. A common HR Delivery Model is in place which entails a harmonised HR Business

Partner role definition to ensure a consistent representation of HR in the different businesses. HR Business Partners provide business proximity and ensure people development and HR solutions tailored to business challenges.

Corporate HR ensures the definition and implementation of group-wide HR strategies, policies, processes and projects which are in the overall interest of EADS and thus (i) defines common HR policies together with Divisions and (ii) owns particular topics through sovereign functions (e.g. Talent and Executive Development, Compensation and Benefits as well as Social Policy and Industrial Relations). The Corporate HR team operates as strategic leader and centre of competence in reserved HR matters, in close cooperation with the Divisions and Business Units which have the operational HR responsibility. For the sovereign as well as selected key HR topics, formal networks are established which ensure regular meetings of the HR managers and specialists from different domains on both group and national levels.

In 2011, working with Group/Divisional Strategy and CTO departments, HR took important steps in mapping existing competences and defining those competences EADS will need to develop in the future.

The ESOP 2011 campaign has been a great success. 23,371 employees (18.8%) invested in the Company, which is more than ever in the history of EADS and demonstrates employees trust in the Company.

A new diversity board has been setup in 2011 to foster gender, social, cultural and intergenerational diversity as well as taking care about disabilities. With regard to gender diversity, the main focus remained on talent management and on building an internal pool of talented women, supported by a specific development programme for women on level 5 (Manager) named "GROW".

2011 saw also the launch of the new group wide initiative "my life at EADS", which aims to create a better working environment and enhance the wellbeing of employees through improvements in health and safety, stress prevention, childcare solutions and flexible working arrangements. Seven best practices have already been awarded in December 2011 and

will now be promoted across the Group, together with the next ones to come.

Since 2009, EADS runs a group wide engagement initiative for all employees based on a survey every 18-24 months, which highlights the strong drivers for engagement as well as areas for improvement.

The main focus of action after the first survey in 2009 was recognition of employees, reinforcement of leadership basics, better communication, improvement measures on trust, empowerment and proximity of managers as well as HR support for the employees, and last but not least the reinforcement of innovation.

A significantly increased participation rate in the second engagement survey, conducted in October 2010, demonstrated that employees are taking this process seriously. The results of this second survey showed a positive trend: EADS improved overall in the areas of recognition, caring about employees' development and progress, internal communication.

The continuation of empowerment initiatives resulted in reducing bureaucracy and speeding up/simplifying the processes. However more initiatives were implemented group wide:

- ① all units invested strongly in two annual discussions between managers and subordinates: annual interview and mid-year review;
- ② engagement forums for best practices sharing were established in June 2011 to enable the whole organisation to learn from those valuable experiences. The documentation was distributed to all managers;
- ③ leadership training programmes "BEST/INSPIRE" were further deployed at all management levels. More than 5,000 managers have been trained since 2009 and more than 1,000 are expected to be trained in 2012; and
- ④ a focus was set on action plans and follow-up at team level, in all Divisions (team boosters), with the local support of HR.

The third engagement survey will be conducted from 12 March to 6 April 2012, the results will be available in June/July 2012.

## 5.5 Environmental matters

EADS' prominence in aerospace makes it a central player of the sustainable mobility issue and more broadly, of the evolution towards a "green economy".

Following the creation of the EADS Environmental network, the group's first environmental policy was published in 2008; it was translated into a corporate environmental roadmap, issued a year later, which dictates regulatory compliance and continuous improvement in environmental management, and defines specific goals of eco-efficient operations, products and

services. To heighten the sense of importance, and incorporate systematically "eco-efficiency" in the corporate culture, EADS dedicated one of the group-wide Top Ten Priorities for 2011 towards the "promotion of eco-efficiency, innovation and quality as key elements of competitiveness through action plans in Divisions and at EADS group level." The eco-efficiency concept is about maximising economic value creation while minimizing environmental impact.



## 5.5.1 Managing environmental impact of activities and products throughout the life cycle

### Environmental Management System (“EMS”)

ISO 14001 is an internationally recognised standard of EMS efficiency for businesses and organisations. EADS encourages not only the environmental certification of its operations but also the implementation of a full life cycle perspective for its products and services, as this remains the most cost-efficient and practical way to effectively reduce the environmental impact. The certified EMS has been progressively implemented across EADS manufacturing sites and over 90% of EADS employees operate under an ISO 14001. The site and product life cycle orientation of EMS purports to create economic value by reducing environmental costs and exposure at each stage of the product life, from design to operations up to end of life.

### At the Research and Development stage

EADS' main focus is to enable the whole aviation sector to meet stringent 2020 and 2050 targets for reducing noise and emissions. EADS divisions have major roles in cooperative projects such as:

- ◎ “MOZAIC”, “COMET”, “IAGOS”, and “QUANTIFY” (projects to monitor gas and water vapour in the upper troposphere and better understand air components, meteorology and climate change phenomenon);
- ◎ “CORINE” (a European Union funded project focusing on a collaborative eco-design tool for small and medium size companies);
- ◎ “Clean Sky” (a seven-years, €1.6 billion Joint Technology Initiative, seeking to meet the “ACARE” research objectives). As much as 80% of the Research and Technology budgets in Airbus and Eurocopter are devoted to finding ways to increase eco-efficiency and reduce pollution;
- ◎ “eGenius” (a project to develop alternative energy-sources for greener aviation and to support basic research activities for electric aircraft concepts); and
- ◎ Last but not least, EADS performs research tests with the German Aerospace Centre “DLR” for fuel cell powered autonomous taxiing. Furthermore EADS joins forces with Parker Aerospace in fuel cell technology development to further improve eco-efficiency in aviation and generate aviation industries' general understanding of the specific technology and its potential.

### At the extended enterprise level

EADS strives to keep the environmental impact of its entire supply chain under control, and it helps its suppliers to improve, notably for compliance with regulatory requirements regarding various substances content in products. To mitigate non trivial business risks, a large mobilisation is underway to support the EADS supply chain on complex substances related regulations such as REACH.

EADS strives to develop joint industrial initiatives to improve the overall environmental performance of the aerospace and defence industry in the most effective, consistent and cost-efficient manner possible. In this connection, EADS supported the creation of the IAEG (International Aerospace Environmental Group) to harmonise industry responses to existing and emerging environmental regulations, align aerospace environmental standards and work on a common approach and expectations for the supply chain.

EADS leads or participates in various European and international environmental working groups such as ICAO, ATAG, ICCAIA, ASD, CAEP, WEF and in environmental working groups of national industry organisations such as GIFAS in France, TEDAE in Spain, BDLI in Germany and ADS in the UK.

### At the manufacturing level

Investment processes are being reviewed in order to include environmental criteria to better integrate environment into business and move towards an eco-efficient enterprise.

Initiatives have been launched at Division and site level to reduce the environmental footprint of the Company by 2020 e.g.:

- ◎ Airbus initiated BLUE-5, which provides a roadmap for reducing the environmental footprint of Airbus by 2020 on the 5 aspects of EADS Vision 2020: energy consumption, CO<sub>2</sub> emissions, waste production, water consumption and discharges and Volatile Organic Compound “VOC” emissions;
- ◎ Astrium has set up a multi-functional working group production/facility management/design, with the aim to make environmental performance a decision driver for new production means;
- ◎ Airbus optimised the ventilation system at the A380 paintshop, which reduces energy consumption by 50,000 kilowatt hours during the average 16-day processing time for an A380. The saving on fuel costs is considerable but there is also a 32-tonnes reduction of CO<sub>2</sub> emissions per aircraft;
- ◎ Airbus Military installed 18,000 m<sup>2</sup> of solar panels at the A400M FAL “final assembly line” in San Pablo, Spain, providing 10% of the plant's total electricity needs without producing any CO<sub>2</sub>. Furthermore, Getafe's Centre for Prototype Aircraft has pipes for geo-thermal heating, which run through thermo-active foundations, avoiding the need for any CO<sub>2</sub>-generating fossil fuel; and
- ◎ Eurocopter has started the environment-friendly construction of an innovative, unique high-tech platform. The building features geothermal heating and groundwater cooler, as well as “green” roofs that can be walked on. There will also be several charging stations for electric vehicles. Additionally, Eurocopter performed the installation of solar panels in Marignane.

To monitor progress, and to comply with reporting obligations, EADS-wide environmental reporting is now well implemented, organised around clear guidelines, a data collection tool and a

structured network. The reporting process and the consolidated data are externally audited since 2010. 13 environmental indicators will be verified in 2012, compared to 4 in 2010, covering themes such as energy consumption, CO<sub>2</sub> emissions, waste production and water. Results from the audit of last year have proven the relevance, maturity and reliability of EADS environmental reporting.

### Aircraft operations:

Over the last 40-50 years, the aviation sector has reduced noise by 75% and CO<sub>2</sub> by 70%. Yet, environmental performance is mandated to improve further and is a major focus of attention.

While its fuel saving technology is a compelling argument for airlines, the A380's, noise and fuel efficiency (< 3 litres fuel consumption/passenger/100 km, vs. 5 litres average for the worldwide fleet) remains unsurpassed for its category.

In line with the ambitious "ACARE" targets, some top level aircraft requirements were set for the environmental performance of the A320neo family. The A320neo will not only deliver significant fuel savings of up to 15%, which represents up to 3,600t of CO<sub>2</sub> savings annually per A320neo. In addition, A320neo customers will benefit from a double-digit reduction in NOx emissions, reduced engine noise, lower operating costs and up to 500nm (950 km) more range or two tonnes more payload.

Built-in fuel efficiency is beyond any doubt the greatest contributor to the environmental friendliness of the A350 XWB. In comparison with current long range twins, the A350 XWB saves up to 25% fuel burn thanks to an intelligent use of materials, state of the art aerodynamics, advanced systems and new generation engines.

Eurocopter's X3 hybrid helicopter demonstrator has delivered on the promise of pushing the frontiers in rotary-wing aviation by surpassing its original speed target of 220 kts demonstrating the compound aircraft's performance, capabilities and maturity. The new aircraft and propeller speeds can be varied by wide degree, making it possible to significantly reduce noise levels during low altitude flyovers. The X3 also can perform optimised flight trajectories during landing and take-off in order to reduce the sound footprint perceived on the ground. The X3 consumes less fuel per kilometre during high-speed cruise flights than the current generation of conventional helicopters.

Beyond aircraft development, EADS is assuming a leading role in developing integrated solutions for enhanced environmental performance including modernisation of Air Traffic Management ("ATM") and has launched a new subsidiary company called "Airbus ProSky", dedicated to the development and support of modern ATM systems. EADS divisions have been involved in the "Single European Sky ATM research" joint undertaking ("SESAR") since inception. Airbus also participates in NextGen, the corresponding US project, to ensure interoperability of systems.

EADS is pioneering sustainable<sup>(1)</sup> biofuels, made from bio-mass feedstock that give off carbon dioxide as they grow, thereby offsetting emissions when they are burned. EADS has been working with universities, fuel companies and start-up companies, as well as standard-setting organisations, to develop "drop-in" biofuels (that work with existing aircraft and infrastructure). Airbus has 7 value chain projects in place, with Tarom, Iberia, Qatar TAM, China Eastern and Virgin Australia and is at present pursuing projects in South Africa and Canada. It also supports airlines, such as Lufthansa, Air France, Interjet and others with their commercial operations using biofuels and is co-leading a key project with the EU to prepare a feasibility study and road map to ensure 2 million tonnes of biofuel availability for aviation in the EU by 2020.

Airbus supported the realisation of a "green flight" operated by Air France from Toulouse to Paris on 13 October 2011. All current CO<sub>2</sub> emissions reduction levers have been used to make this flight the most efficient in terms of cost and emissions: optimisation of flight procedures, optimisation of air traffic, use of a modern aircraft, use of bio fuels, etc. The results are extraordinary: 2.2l/passenger/100 km, 50% reduction of the consumption compared to a usual flight.

### End of life and recycling of aircraft

This process deserves consideration: about 14,000 commercial transport aircraft will be removed from service over the next 20 years, and will be replaced by more fuel and CO<sub>2</sub> efficient aircraft. Airbus has developed sustainable dismantling and recycling techniques that comply with environmental, health and safety requirements, and it is increasingly incorporating this knowledge upstream into aircraft design.

### 5.5.2 EADS: a warehouse of technology, contributing to the environmental offer

EADS evolving technology portfolio, arising from Aerospace and Defence research, has applications inside and outside its core business, contributing to environmental innovation across other sectors.

Illustrating this approach, Astrium is positioning its observation, navigation, telecom satellites and services as enablers of three component solutions to earth's environmental challenges: Monitoring (to provide policy makers with solid data for decisions), Mitigation (of the negative impact of human activities), and Adaptation (to environmental degradation).

Satellites are long established as a monitoring tool for environmental scientists and policy makers. Astrium observation technologies provided to the European Space Agency become durable monitoring tools within the EU GMES programme.

Space is also an invaluable vantage point, for the Adaptation segment, in times of crisis (extreme weather, floods, forest fires, earthquakes, etc.) to support rescue teams with terrain data and victim location, or to do preventive mapping of vulnerable zones. On the Mitigation front, Astrium offers services to agriculture that help to reduce the use of fertilisers.

(1) EADS defines sustainable bio-fuels as neither competing with land/water resources used for food production nor destroying rain forests.



Launched in 2010 “Cryosat” the Astrium built satellite has complemented our understanding of the relationship between the deterioration of the polar caps and the climate change.

Geostationary Ocean Color Imager “GOCI”, an instrument provided by Astrium to South Korea, has been validated in space, on board the COMS (Communication Ocean, Meteorological Satellite) starting successfully its scientific mission in 2011.

EADS Services, via its GEO-Information business, and the ‘Agence Française de Développement’ (AFD) have launched a portal to provide satellite imagery of the forests in the Congo basin to organisations working to conserve the region’s forests. Over 600 SPOT satellite images will now be directly accessible.

A very successful international workshop on REDD (Reducing Emissions from Deforestation and forest Degradation) was organised gathering more than 80 world experts, economists and investors showing the great interest of satellites imagery to monitor forest protection.

## 5.6 Research and Technology Management

Today’s rapidly changing business environment demands new aerospace innovation that answers society’s requirements concerning the environment, security and mobility. EADS’ Research and Technology management (“R&T”) is tightly linked to improve the Group’s competitiveness to answer these needs. Research and Technology plays a central role in helping EADS remain competitive by driving forward the spirit of innovation. The EADS Corporate Technical Office (“CTO”) organisation ensures that business strategy and technology strategy are closely aligned.

The CTO, together with Divisional research operations, delivers shareholder value through a deliberate, leading-edge R&T portfolio that enables the introduction of new technologies. The CTO also fosters long-term customer relationships by developing high value solutions which meet the technological, performance, safety, and cost competitive pressures that the Company faces. The EADS R&T strategy is also driven by the need for successful on time, on quality, on price introduction of new products and processes that include IT technology, quality and services. The scope of R&T within EADS covers a wide spectrum of technological domains. R&T activities are targeted at various levels in the value chain and the R&T strategy is structured according to the timelines of short-term/committed programmes, medium term/optional programmes and long-term/advanced concepts.

The R&T activities for advanced concepts include Integrated Demonstrators and Technological/Operational Studies. Today, all EADS Divisions work in close collaboration with the CTO office to generate new products in line with the Company’s vision and to maximise its future business potential. This vision explores and generates completely new ideas, while pushing the limits of what is technically possible. During 2011, the corporate research portfolio was focused around four growth axes: mobility, sustainable aviation (e.g. biofuel developments and diesel-electric propulsion concepts), safety and security (e.g. unattended luggage inspection system and aircraft safety) and services (e.g. in mid-life upgrades, maintenance repair and overhaul).

EADS also dedicates resources to assess emerging ideas and concepts through several programmes including Free

Scouting and the EADS Nursery. EADS R&T management endeavours to develop upstream technology concepts, which means, for example, constantly looking for new ideas, materials and equipment and experimenting with them on prototypes before they are deployed on a large scale. In doing so, the Company develops privileged relationships with top institutes around the world. EADS R&T activities in these areas are aimed to identify emerging concepts and to further develop these technologies. EADS identifies emerging technologies through its internal research network known as Technological Capability Centres (TCC): that will drive future performance for seven key technology areas: Composites Technologies, Metallic Technologies & Surface Engineering, Structures Engineering, Production & Aeromechanics, Sensors, Electronics & Systems Integration, Engineering, Physics, IT and Energy & Propulsion. Activities of the TCCs are located at Innovation Works centres around the world.

R&T management also includes the “architect’s toolbox” which develops and masters the state of the art tools, and enables EADS to be an efficient industrial architect. The toolbox encompasses virtual product engineering technologies like: function digital mock-up, mixed reality for aircraft operations, realistic human experience analysis, and mature software development products like MACROS.

It is of key importance for EADS to detect disruptive technologies that could contribute to the Company’s portfolio of products. Through EADS Innovation Works, the research arm of the CTO, and together with the Divisional R&T units and the partnerships with external laboratories around the world, EADS monitors and evaluates closely different technologies such as fuel cells, secure communications, photonics, nanotechnologies and hybrid materials – among many others.

In keeping with its ambition to grow its business in the products related services, EADS is developing technologies for services such as training, advanced product support, full communication services as well as special mission capability: e.g. provision, maintenance and operations on behalf of a customer including qualified staff to conduct the mission.

## 6. Financial Targets for 2012

As basis for EADS' 2012 guidance, the Group expects the world economy and air traffic to grow in line with prevailing independent forecasts and assumes an average US dollar exchange rate of €1 = US\$ 1.35.

In 2012, Airbus should deliver around 570 commercial aircraft. Gross orders should be above the number of deliveries. EADS 2012 revenues should continue to grow above 6%. Group EBIT\* before one-off should improve significantly thanks to volume increases at Airbus and Eurocopter, better pricing at Airbus and A380 improvement. EADS expects the EBIT\* before one-off to be above €2.5 billion. The EADS 2012 earnings per share (EPS)\* before one-off should be above €1.65 (FY 2011: €1.39), based on the Net Income\* before one-off.

Going forward, the reported EBIT\* and EPS performance of EADS will be dependent on the Group's ability to execute on its complex programmes such as A400M, A380 and A350 XWB, in line with the commitments made to its customers. Based on this EBIT\* guidance, EADS should continue to generate a positive Free Cash Flow after customer financing and before acquisitions. As it is the most volatile item, especially during uncertain macro-economic times, EADS will give a more precise guidance later in the year.

## 7. EADS Strategic Challenges

The following strategic challenges of EADS have been published in the Group's Vision 2020 which outlines EADS' long-term objectives and has been discussed throughout various management levels, as well as EADS' Board of Directors.

All such objectives must be understood to be long-term management ambitions, the achievement of which is subject to risks as outlined in section – 4.6 Risk Factors.

### 7.1 Group Strategic Challenges

EADS has one of the broadest aerospace platform portfolios and has the world's largest order backlog in 2011, making the Group a global leader in its sector. With its Vision 2020, EADS strives to expand its global leadership in air and space platforms, systems (mainly platform related systems architecture and integration) and services with a complete portfolio of products, both commercial and governmental.

In the current environment all players in the aerospace and defence industry are likely to face tough decisions in the coming years. The Group needs to manage a significant increase in commercial aircraft deliveries and simultaneously a continued reduction in defence budgets in particular for the US and numerous EU countries. While the commercial backlog predicts an increase in manufacturing, the Group will put emphasis on also growing the governmental and services businesses to ensure a broader and more balanced base for value creation potential. This represents a key strategic challenge for the Group.

Although the commercial aviation cycle is strongly correlated to GDP growth, the industry remained in a period of growth in aircraft deliveries, driven by emerging market growth. Rising fuel price and the need for more efficient aircraft, i.e. the need to replace aging fleets in developed economies are additional drivers for sustained growth in aircraft demand. Simultaneously, emerging aircraft competitors are ramping up activities and the competitive landscape is likely to evolve, including a shortening of the innovation cycle. As a response, EADS pursues strong R&D and innovations efforts to provide solutions in line with market expectations (such as the A320neo).

EADS must also cope with an increased pressure related to its supply chain, both in terms of the availability of financing and skilled labour for lower tier players to meet increasing demand and production ramp-up from commercial OEM (Original Equipment Manufacturer) players. Specialty raw-material shortages could also be a challenge to sustain and increase capacity, as well as single source supplies, as was the case in Japan after the natural disaster in 2011.



Defence and institutional activities which traditionally have been more resilient to downturns have been facing headwinds since the economic downturn in 2008. Several nations, and in particular the US and many EU countries, have been forced to reduce public sector spending in general. This will result in defence budget cuts and a need to strengthen focus on affordability of platforms and equipment, as well as increased outsourcing of activities no longer considered as core to the armed forces.

Additionally, sustained growth in security spending both from government and private sectors has been driven by the need to respond effectively to large-scale security threats, such as natural disasters, fires, flooding and earthquakes, as well as asymmetric terrorist threats and an increasing need to define protective policies and counter measures against sophisticated cyber-attacks.

Consequently, EADS will continue to develop and secure core capabilities, technologies for the interoperability and connectivity of platforms and systems in the commercial, as well as in the defence and security realms. In particular when delivering complex UAVs, satellites and air defence missile systems, such capabilities remain core in order to secure prime contractorship.

EADS will continue to develop services activities which provide a new growth vector fuelled by the increasing need in markets segments like training, advanced in service support and air traffic management systems. Capture opportunities due to the expected transfer of responsibilities and outsourcing from defence/governmental bodies is also a priority. Demand for mission-critical services and availability contracts is rising in the market, either driven by cost and revenue constraints or driven by operational efficiency requirements. Therefore, EADS targets to double its services share of business by 2020.

In order to ensure continuous access to markets and technology resources, to optimise cost and to protect against US dollar volatility, EADS will pursue the development of three geographical pillars including EU, US and other global markets. To achieve this ambition, EADS needs to reinforce the industrial footprint and partnership-building outside Europe whilst protecting core technologies and optimising our industrial base in Europe. Beyond new opportunities in the US commercial aviation market, which are mainly driven by replacement needs,

EADS long-term goal will also be to enhance the Group's US industrial base and achieve US\$ 10 billion revenues in North America, mainly by addressing a defence, security and space related customer base and gaining a prime position with US Government. Furthermore, increased focus will be given to selected key markets in the Middle East, Latin America and Asia in order to benefit from the growth dynamics in turbo economies.

For EADS to counter these strategic challenges and drive towards the Vision 2020 objectives, further organic growth needs to be fostered and supported by external growth through acquisitions or partnerships. Consequently, EADS must constantly monitor the development of potential opportunities, in particular in areas of strategic interest such as aerospace platforms, defence-, security- and space- systems and electronics as well as related activities in service support throughout the overall business portfolio.

EADS will also continue to drive necessary improvements to achieve a best in class operational and financial efficiency and in particular a better profitability. Achievement of this target is depending on the average value of the euro-dollar exchange-rates and the development of the commercial cycle. The improvements have to come through internal cost control, optimal resource allocation, enhanced programme execution and risk management, ability to cope with the US\$ volatility as well as growth, particularly of more profitable segments. Furthermore the management of commercial cycles, avoiding volatility in manufacturing as well as managing impacts on the supply base, is also a key element to ensure long-term value creation.

EADS is consistently moving towards becoming an eco-efficient company. With a clear objective to reconcile environmental protection and economic sustainability, EADS intends to meet increasing demand for aeronautic/space/defence products.

Finally, EADS needs to keep motivated and competent employees. EADS leadership culture is based on mutual trust, empowerment, recognition and accountability. Employee development is a key activity for EADS management. EADS will also encourage stronger mobility and greater diversity. Recruitment of managers from nations outside our home countries will also be encouraged.

## 7.2 Divisions outlook

### Airbus

In 2012, Airbus is targeting a further increase in deliveries to approximately 570 commercial and 30 military aircraft. Monthly production rates are set to be ramped up to 42 for the A320, 9.5 for the A330 and towards three for the A380 by the end of 2012. Gross commercial aircraft orders are expected to be above the number of deliveries.

The first A350 XWB will enter final assembly in early 2012, in line with the new schedule. The Sharklets for the A320 family will complete testing, ahead of certification before the year end. A400M production will ramp up in preparation for delivery of the first aircraft to the French Air Force.

In financial terms, Airbus Commercial underlying profitability (EBIT\* before one-off) is expected to improve significantly, thanks to higher delivery volumes, better pricing and

improvement of A380 production performance. Going forward, the reported EBIT\* will be dependent on the Company's ability to execute on the A400M, A380 and A350 programmes, in line with the commitments made to its customers.

### Eurocopter

In 2012, Eurocopter aims to continue its ambitious innovation programme, while growing its international footprint and further expanding services. Development of the next-generation X4, Eurocopter's successor in the Dauphin segment, will be a priority for 2012, as will the inauguration of the EC725 assembly line in Brazil, and the phasing-in of a production facility in Mexico. Eurocopter will also continue discussions with the German government on defence programmes.

In the next 5 years, Eurocopter is anticipating a gradual global recovery in the civil market, especially outside Europe. Eurocopter expects deliveries to return to pre-crisis levels in the next few years and a significant improvement in its profitability mid-term.

### Astrium

In 2012 Astrium will continue the drive to improve its competitiveness through the transformation programme AGILE, launched in late 2010. Revenues are expected to be stable in 2012, while pressure on institutional markets will weigh on

services profitability. In the following years, Astrium is expected to return to benchmark profitability, in line with the Group's ambitious growth and profitability targets for 2020.

In 2012 budget constraints will put pressure on order intake from institutional customers both in the defence and exploration sector. The ESA Ministerial Council, due to take place in late 2012, is expected to provide clear perspectives on the future direction of European space programmes.

### Cassidian

During 2012, Cassidian will continue to adapt to the changing global business environment. Cassidian will continue to invest in technologies, demonstrators and globalisation to secure future business, while managing risks and pursuing its transformation process through efficiency improvements, headcount adaptations and development outside Europe.

Beyond 2012, Cassidian aims to return gradually to benchmark profitability confirming ambitious long-term targets for growth, profitability and cash generation. In the medium term, Cassidian expects to be generating more than 50% of its total business outside the traditional home countries, compared to 32% in 2010. In the long-term, Cassidian aims to increase the security-related share of its revenues to 50% compared to 22% in 2010.

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The information contained in this Board Report will enable you to form an opinion on the situation of the Company and the operations, which are submitted to you for approval.

For further information and detail regarding EADS' activities, finances, corporate governance, and in particular risk factors, the reader should refer to the EADS website [www.eads.com](http://www.eads.com).

The Board of Directors hereby declares that, to the best of its knowledge:

- the Financial Statements for the year ended 31 December 2011 give a true and fair view of the assets, liabilities, financial position and profits or losses of EADS and undertakings included in the consolidation taken as a whole; and
- this Board Report gives a true and fair view of the position as per the balance sheet date, and of the development and performance during the 2011 financial year of EADS and undertakings included in the consolidation taken as a whole, and the principal risks facing EADS have been described herein.

### The Board of Directors

Bodo Uebber, Chairman

Louis Gallois, Chief Executive Officer

Rolf Bartke, Director

Dominique D'Hinnin, Director

Juan Manuel Eguiagaray Ucelay, Director

Arnaud Lagardère, Director

Hermann-Josef Lamberti, Director

Lakshmi N. Mittal, Director

Sir John Parker, Director

Michel Pébereau, Director

Wilfried Porth, Director

**Leiden, 7 March 2012**

# Financial Statements 2011

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(included in a separate booklet)

The financial information for 2011, as set forth below, forms part of the Documentation for the Annual General Meeting as well as the Registration Document 2011, and is incorporated by reference herein:

- ◎ EADS N.V. Consolidated Financial Statements (IFRS)
- ◎ Notes to the Consolidated Financial Statements (IFRS)
- ◎ Auditors' report on the Consolidated Financial Statements (IFRS)
- ◎ Company Financial Statements
- ◎ Notes to the Company Financial Statements

Copies of the financial information for 2011 are available at the headquarters of the Company and at the head offices at the following addresses:

- ◎ in the Netherlands: Mendelweg 30, 2333 CS, Leiden;
- ◎ in France: 37, boulevard de Montmorency, 75016 Paris;
- ◎ in Germany: Willy-Messerschmitt-Str. – Tor 1, 85521 Ottobrunn;
- ◎ in Spain: Avenida de Aragón 404, 28022 Madrid;
- ◎ on our website [www.eads.com](http://www.eads.com) (Investor Relations);
- ◎ at EADS Securities Department: BNP Paribas Securities Services, CTS Assemblées, 9 rue du débarcadère – 93761 Pantin Cedex, France (Tel.: +33 1 57 43 35 00).

# Useful Information

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## How to attend the meeting

**Hotel Okura Amsterdam,  
Ferdinand Bolstraat 333,  
1072 LH Amsterdam, The Netherlands  
Tel.: +31 (0)20 678 71 11**

### By car

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Hotel Okura is located at about 30 minutes from Amsterdam-Schiphol international airport, right next to the RAI Congress Center.

From all directions, follow Ring Amsterdam (A10). Exit RAI (S109) and turn right at the traffic lights, direction RAI/Centrum (S109).

Follow direction Zuid (S109). After passing the roundabout, take the second street on your right (Scheldestraat). After 500 metres, Hotel Okura appears on your right hand side.

Parking at the Hotel Okura Amsterdam.

### By public transport

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#### From Schiphol Airport

- Ⓐ **First itinerary:** Take the train (direct rail link of 15 minutes) to Centraal Station – in the main arrival plaza – and then see the hereafter indications.
- Ⓑ **Second itinerary:** Take a stop train, direction Lelystad Centrum, Hilversum or Utrecht Centraal to the first stop (Zuid Station), and then, follow the hereafter indications.
- Ⓒ **Third itinerary:** Take a stop train, direction Hilversum or Almere Oostvaarders to the RAI station, and then, follow the hereafter indications.

#### From Centraal Station – CS

Take the tram number 25, direction President Kennedylaan, to the eleventh stop (Cornelis Troostplein, see the map ▲). Go down the street. After 200 metres, Hotel Okura appears on your left hand side. Walking time: 3 minutes.

#### From RAI Station

Walk in the direction of Europa Boulevard. Go straight away to Europaplein and then to Scheldestraat. After 500 metres, Hotel Okura appears on your right hand side, just after the bridge. Walking time: 10 minutes.

#### From Amstel Station

Take the tram number 12, direction Station Sloterdijk, to the fifth stop (Scheldestraat, see the map ●), or bus number 65, direction Station Zuid, to the seventh stop (Scheldestraat, see the map ●). Walk in Churchilllaan for 100 metres, and then turn left in Ferdinand Bolstraat. After 100 metres, just after the bridge, Hotel Okura appears on your right hand side. Walking time: 3 minutes.

#### From Zuid Station

Take the bus number 65, direction KNSM Eiland, to the fourth stop (Scheldestraat, see the map ●). Walk in Churchilllaan for 100 metres, and then turn left in Ferdinand Bolstraat. After 100 metres, Hotel Okura appears on your right hand side, just after the bridge. Walking time: 3 minutes.







# www.eads.com

## Shareholders Information

### Toll-free number from:

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Germany: 00 800 00 02 2002  
Spain: 00 800 00 02 2002

Phone: +33 800 01 2001

E-mail box: ir@eads.com

European Aeronautic Defence and Space Company EADS N.V.

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